Professional Diversity Network, Inc.
Form 10-K
April 16, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

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	**80-0900177**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
801 W. Adams Street, Suite 600 Chicago, Illinois	**60607**
(Address of Principal Executive Offices)	*(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	**Name of each exchange on which registered**
Common Stock, $0.01 par value per share	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 [X]

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 [X]

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

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

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X]

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 [X] 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 [X]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $6,943,564 (based on a price per share of $3.82, the price at which the common shares were last sold as reported on the NASDAQ Capital Market on such date).

There were 4,856,958 shares outstanding of the registrant's common stock as of April 12, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

PROFESSIONAL DIVERSITY NETWORK, INC.

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2018

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PROFESSIONAL DIVERSITY NETWORK, INC.

PART I

Unless we specify otherwise, all references in this annual report on Form 10-K (the “Annual Report”) to “PDN,” “the Company,” “we,” “our,” and “us” refer to Professional Diversity Network, Inc. and its consolidated subsidiaries. This discussion contains forward-looking statements, which are based on our assumptions about the future of our business. *Our actual results will likely differ materially from those contained in the forward-looking statements. Please read “Special Note Regarding Forward-Looking Statements” for additional information regarding forward-looking statements used in this Annual Report.*

ITEM 1 - BUSINESS

Overview

The Company is a dynamic operator of professional networks with a focus on diversity. We use the term “diversity” (or “diverse”) to describe communities, or “affinities,” that are distinctly based on a wide array of criteria which may change from time to time, 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). Our goal is (i) to assist our registered users and members in their efforts to connect with like-minded individuals, identify career opportunities within the network and (ii) connect members with prospective employers while helping the employers address their workforce diversity needs. We believe that the combination of our solutions allows us to approach recruiting and professional networking in a unique way and thus create enhanced value for our members and clients.

On November 7, 2016, we consummated the issuance and sale of 1,777,417 shares of our common stock, par value $0.01 per share, to Cosmic Forward Limited (“CFL”), a Republic of Seychelles company wholly-owned by four Chinese investors. In connection with that transaction, CFL shareholder Maoji (“Michael”) Wang was appointed as Chief Executive Officer and a Director of the Company, and CFL shareholder Jingbo Song was appointed as a Director of the Company serving as the Company’s Co-Chairman of the Board (Mr. Song resigned as a director of the Board on February 20, 2019). On December 1, 2016 our Board of Directors (“Board”) authorized the proper officers of the Company to take all action required to create subsidiaries in both Hong Kong and China in order to facilitate expansion of the Company’s business into China. In January of 2017, the Company established two Hong Kong subsidiaries, PDN (Hong Kong) International Education Ltd and PDN (Hong Kong) International Education Information Co., Ltd, and in March of 2017 the Company established its China subsidiary, PDN (China) International Culture Development Co. Ltd. In November of 2017, Jiangxi PDN Culture Media Co., Ltd became a consolidated variable interest entity. We are currently executing our strategic plan to build in China entirely new networking, training and education businesses. We believe that coupling the Company's expertise in networking and careers with the CFL owners' expertise in the China market will provide us with an opportunity for success with our overseas expansion.

Our Strategy

Following CFL's investment in the Company's in November 2016, we began efforts to leverage PDN's assets to maximize profitability, beginning with refining operations and enhancing sales in order to transform the Company from historical losses to future profits. The Company currently provides services for employers' who want to hire diverse talent, to individuals seeking to network on a professional level and to job seekers who desire to improve their professional situation. Since the control investment in PDN by CFL, we have successfully expanded operations in China in three primary segments that relate to the core US operations. In China, we have launched educational services, business and women's networking. We now offers membership in the International Association of Women, The Business Elite Club and Educational Services. As a result, in 2017, we began offering our educational, business and networking services to our new members in China and also extended our reach to the Global Women's Forum Event in Paris, France, for elite members from China.

The core diversity recruitment business expanded in 2017 to include executive placement services for leading companies seeking to hire diverse talent. This new business line addresses a need for employers who want to secure leading diverse talent in management, senior management and executive capacities. Initial efforts have been focused on securing talent in digital transformation and finance. Our diversity recruitment business provides additional value for our other business segments by providing our registered users and members with access to employment opportunity at leading companies.

In 2019, we plan to continue to refine the operations within the United States to become more efficient. Second, we intend to further grow our business in China.

Our strategy encompasses the following key elements:

- Grow and diversify our member and client base;
- Maximize revenue through synergies among the segments;
- Launch new products and services;
- Streamline infrastructure to capture efficiency; and
- Continue to expand in diversity recruitment by growing our core offerings of recruitment advertising, The Office of Federal Contract Compliance Programs (OFCCP) compliance offerings and now our new diversity placement services.

Industry Overview

The diversity recruitment market is highly fragmented and is characterized by the following trends:

Regulatory Environment Favorable to Promoting Diversity in the Workplace. In August of 2011, President Obama signed Executive Order 13583 to establish a coordinated government-wide initiative to promote diversity and inclusion in the federal workforce. This Executive Order requires companies considering contracting with the federal government to be prepared to demonstrate the diversity of their workforce. Certain companies that have federal contracts are subject to this Executive Order. In the public sector, the Dodd–Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") mandated that each of the eight U.S. financial agencies, including the Department of the Treasury, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, and twelve Federal Reserve banks create Offices of Minority and Women Inclusion ("**OMWI**") to be responsible for all agency matters relating to diversity in management, employment and business activities. The OMWI monitor diversity within their ranks as well as within the pool of contractors who provide goods and services to the government.

Growing Ethnic Diversity of the U.S. Population and Labor Force. Multicultural groups are the fastest growing segment of the U.S. population. Hispanics, African-Americans, Asian-Americans, and all other multicultural groups were estimated by the U.S. Census Bureau to make up 38% of the U.S. population in 2014, with census projections showing that multicultural populations will become a numeric majority by 2044. According to the U.S. Census Bureau, 2014 National Projections, the multicultural population is expected to increase 95% between 2014 and 2060. In sheer numbers, Hispanic-Americans are expected to experience the most growth among diversity groups, growing from 17% of the total population in 2014 to 29% by 2060. African-American population is expected to increase from 14% in 2014 to 18% in 2060, and Asian-American population from 6% in 2014 to 12% in 2060. Not surprisingly, diversity recruitment is increasingly becoming a common, if not standard, business practice by major employers. According to the Current Population Survey conducted by the Bureau of Census for the Bureau of Labor Statistics, of the 2015 annual average of approximately 149 million employees nationwide, approximately 47% were women and approximately 34% were Hispanic, African American or Asian American. According to a job report on private sector hiring published by the U.S. Equal Employment Opportunity Commission in July 2015, the percentage of minority employment in the U.S. compared to overall employment grew from 11% in 1966 to 37% in

2014. In the U.S., Hispanic-Americans had the fastest growth rate in the U.S. private sector, with employment of Hispanic-Americans increasing from 2.5% to 13.9% between 1966 and 2013. The share of the labor force that is Hispanic-American is projected to increase from 16.3% in 2014 to 19.8% in 2024, according to the Bureau of Labor Statistics.

Demographic Trend Toward Women's Career Advancement. According to the U.S. Bureau of Labor Statistics, there were over 74 million women 16 years old and over in the workforce as of January 2016. The number of women in the labor force is expected to increase to 77.2 million by 2024. In 2015, women accounted for 52% of all workers employed in management, professional, and related occupations. According to the Current Population Survey conducted by the Bureau of Census for the Bureau of Labor Statistics, in 2015 women also made up the majority of healthcare support occupations (87.6%) and healthcare practitioners and technical occupations (75.1%), the occupations expected to grow most rapidly between 2014 and 2024.

Rising Spending Power of Diverse Population. IPDN US segments are focused on providing professional enhancement tools to diverse Americans including women. We believe diverse professionals are underserved and represents a very strong opportunity to enhance our shareholders value. Published by the Selig Center for Economic Growth, the report estimates the nation's total buying power reached $13.9 trillion in 2016 and predicts it will hit $16.6 trillion by 2021, with minority groups making the fastest gains. For example, African-American buying power, estimated at $1.2 trillion in 2016, will grow to $1.5 trillion by 2021, making it the largest racial minority consumer market.

Increasing Socialization of the Internet. The Internet has revolutionized how information is created and communicated - a wealth of information is readily accessible by browsing the Internet anonymously. However, we believe the social aspect of the Internet is emerging as an increasingly powerful influence on our lives. While an individual's interpersonal connections traditionally have not been visible to others, social and professional networking websites enable members to share, and thereby unlock, the value of their connections by making them visible. Today, personal connections and other information, such as online social and professional networking websites, are increasingly becoming a powerful tool for a growing population of users to connect with one another.

China – Demand for Our Services. Over the past two decades the Chinese economy has experienced sustained, hyper growth. The female population in China currently exceeds 675 million women, and women control approximately 38% of business activities and 50% of business revenue. Our Chinese officers and directors believe that China therefore presents a high demand economy for our core services – professional networking for women and career services for job seekers and employers.

Our Solutions

We currently operate in three 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, (ii) National Association of Professional Women ("**NAPW Network**"), a women-only professional networking organization, and (iii) China operations ("**China Operations**"). In 2018, our PDN Network, NAPW Network, and China Operations businesses represented 33.5%, 59.3%, and 7.2% of our revenues, respectively. In 2017 we launched the International Association of Women in China and in 2018 started transacting new memberships under the International Association of Women brand in the USA.

For financial information about our operating segments please see Note 17 of our Consolidated Financial Statements included in this Annual Report.

NAPW Networking

The NAPW Network is a professional networking organization for women, with approximately 954,000 paid and unpaid members as of December 31, 2018. We use the term “member” to describe a consumer who has viewed our marketing material, opted into membership with the NAPW Network, provided demographic information and engaged in an onboarding call with a membership coordinator. Paid memberships provide greater access to networking opportunities and other membership perks, including access to upgraded packages. We believe NAPW Network is the most prominent women-only professional networking organization in the United States. Members of the NAPW Network enjoy a wealth of resources dedicated to developing their professional networks, furthering their education and skills and promoting their businesses and career accomplishments.

We provide NAPW Network members with opportunities to network and develop valuable business relationships with other professionals through NAPW’s website, as well as at events hosted at approximately 209 local chapters across the United States. PDN Network products and services are being deployed to provide enhanced value to the NAPW membership experience, which we believe will be an important component in increasing both the number of new memberships and renewals of existing memberships.

NAPW eChapter. NAPW operates a series of virtual national chapter meetings, hosted by Star Jones, President of NAPW, and Louise Newsome, National Director of Local Chapters. The events are held online bi-weekly, and include presentations by Ms. Jones, and a panel discussion including NAPW VIP members on topics focused on inspiring professional women to tackle and overcome challenges encountered in their careers and businesses. Topics are aligned with NAPW’s content strategy and include discussions on finding and igniting your passion, turning passion into opportunity, building confidence and professional growth through taking on new challenges. The on-line events also include the opportunity for members to network with other participants in the live chat room. The event attracts approximately 1,000 registrants and 300-350 participants. We define registrants as those who enroll in an eChapter meeting but for some reason fail to attend, and participants as those who both enroll and attend. We track registrants, though they do not attend, because they are an indicator of our marketing reach and membership engagement.

NAPW eCoaching. NAPW also operates a bi-weekly virtual coaching event, where VIP members who are personal and professional coaches provide participants with insight and tips on how to overcome career and business challenges. Hosted by Louise Newsome, NAPW’s National Director of Local Chapters, our unique virtual coaching platform connects our members with professional life and career coaches from within the NAPW membership base. Through this event, members gain insight, guidance and inspiration to help them maximize their personal and professional potential. Topics include the Power of Intentionality - Turning Good Intentions Into Actions, The Power of Authentic Communication, and Confident Steps To Create a Thriving Life. The on-line events also include the opportunity for members to network with other participants in the live chat room. The event attracts approximately 800 - 1,000 registrants and 250 - 300 participants.

Professional Identity Management. Through the NAPW Network website, NAPW Network members are able to create, manage and share their professional identity online and promote themselves and their businesses. NAPW Network members can also promote their career achievements and their businesses through placement on the NAPW Network website's home page, in proprietary press releases, in the online Member Marketplace and in monthly newsletter publications. In addition, the PDN Network provides members with direct access to employers seeking to hire professional women at a high level of connectivity and efficiency. Our synergies enable us to match members with our employment partners and then converse with the member to confirm such member's desire to take the position to which we matched them, confirm that member is qualified for the position and directly notify the employer about a member that we have qualified and confirmed has competed an application within the employer's recruitment system.

Networking Events. Historically, NAPW Network's offline networking opportunities included monthly local chapter events and a large National Networking Conference NAPW. In 2018, we held Power Networking event in Houston, Texas. We expect to continue to leverage the existing PDN Network events platform to host NAPW networking events in major markets around the nation. Because PDN Network networking career events are already being conducted we have the ability to add an additional event for NAPW at the same venue, one hour after the PDN Network event ends, at a substantially lower cost compared to hosting a stand-alone NAPW event. Employers who sponsor the PDN Network career networking events will have the opportunity to participate in the NAPW event and meet with members to discuss employment opportunities in what we believe is an inviting and upscale networking environment. We believe that providing the opportunity for NAPW Registered Users to meet, outside of the monthly local chapter events and the single national event, will add value to all NAPW Registered Users through allowing them to attend any or all of our PDN Network events. Non-members may also attend, subject to certain restrictions.

Access to Knowledge. In addition to networking and promotional opportunities, NAPW Network also provides to its members the ability to further develop their skills and expand their knowledge base through monthly newsletters, online and in-person seminars, webinars and certification courses.

Upgraded Memberships and Ancillary Products. Upgraded packages include the VIP membership, which includes additional promotional and publicity tools as well as free access for the member and a guest to the National Networking Summits and continuing education programs; the press release package, which provides members with the opportunity to work with professional writers to publish personalized press releases and thereby secure valuable online presence; and the registry product, which allows members to create a durable, historical record chronicling their career achievements.

Partner Discounts. We also offer to NAPW Network members exclusive discounts on third-party products and services.

IAW Global Women's Network. This network offers in-person networking with like-minded women to foster enhanced career connections and opportunities. Members can promote their brands, identify new career opportunities, and build lasting relationships at monthly meetings and events. Hosted by Star Jones, these interactive events allow members to improve their verbal resumes, expand their networks, and hear from inspiring speakers. Regional and National Conferences provide inspirational panels, unique networking opportunities, and the chance for members to promote their business or services. Our partners allow members to explore events outside the US and create opportunities to network with women around the world.

PDN Network

Recruitment Solutions. The PDN Network consists of several online professional networking communities dedicated to serving diverse professionals in the United States and employers seeking to hire diverse talent. We use the word “professional” to describe any person interested in the Company’s websites presumably for the purpose of career advancement or related benefits offered by the Company, whether or not such person is employed and regardless of the level of education or skills possessed by such person. Our networking communities harness our relationship recruitment methodology to facilitate and empower professional networking within common affinities. We believe that those within a common affinity often are more aggressive in helping others within their affinity progress professionally. We operate these relationship recruitment affinity groups within the following sectors: 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.

As of December 31, 2018, the Company had approximately 10,695,000 registered users. We use the term “registered user” to describe a consumer who has affirmatively visited one of our properties, opted into an affinity group and provided us with demographic or contact information enabling us to match them with employers and/or jobs, and to sell them ancillary products and services. We expect that continued registered user growth of the PDN Network will enable us to further develop our list of online professional diversity networking and career placement solutions. We currently provide access to our PDN Network websites to registered users at no cost. The Company is exploring various partnerships with other service providers to increase their offerings to both job seekers and employers. Our goal is to use an asset light approach to provide quality products and services, to increase our value to those we serve and drive additional capital without significant capital investments. For example, we announced our partnership with Diverst, the leading provider of Diversity & Inclusion software. Leveraging our existing assets through relationships with other technology firms such as Diverst allows us to grow our relationships with employers without investing in sophisticated, proprietary resources.

We offer to large and medium employers seeking to diversify their employment ranks, and to third party recruiters (i) real-time solutions that deliver diverse talent, (ii) advertising and promotion of their job opportunities to our networks of diverse professionals and (iii) assistance with posting their job opportunities to career agencies in a manner compliant with the regulations and requirements of the Equal Employment Opportunity OFCCP, including those of state and local governments. Our recruitment advertising solutions promote hiring and retention success by providing job seekers with information that we believe allows them to look beyond a corporate brand, deeper into employers' core values. We use sophisticated technology to deliver recruitment advertising using internet banner ads and email marketing targeted by geography and occupation, based upon data from our audiences' profiles and job searches on our websites. As of December 31, 2018, we had over 1,000 companies utilizing our products and services.

Networking Events. In addition to online networking, our registered users can participate in a number of local and national events held across the United States, including monthly NAPW local chapter meetings, business expos, charitable events and other events developed specifically to facilitate face-to-face networking with other professionals. In 2018, we held over 20 Career Networking Conferences, including NAPW's three-city National Networking Summit Series and two online career fairs for veterans and their spouses. We schedule NAPW Network events after PDN Career Networking Conferences in order to create opportunities for employers participating in the PDN Network events to receive exposure to more candidates. In addition, we derive new members for both our PDN Network affinities and NAPW Network membership roll from participation in the events, promote retention among paying NAPW Network members and derive goodwill and positive publicity for our corporate brands.

Career Fairs. Through our events business, a part of our PDN Network business segment, we produce premier face-to-face recruiting events we call Professional & Technical Diversity Career Fairs. The Company's diversity events help employers connect with a new marketplace of diverse professionals. Our events are the only events of their type endorsed by leading organizations such as the NAACP, Urban League, BDPA and others. Participating employers range from Fortune 500 companies to federal, state and local agencies and from smaller employers to non-profit organizations, all of which seek a proactive approach to diversity recruiting. We also produce career fairs as part of high-profile national events such as the NAACP National Convention, the Urban League National Conference and HBCU sorority and fraternity conferences. In 2017 we added virtual career fairs serving veterans, women and STEM professionals.

PDN Quick. Our new Hire AdvantEdge product allows us to sell the qualified candidate lead referral service to employers via an e-commerce model. Hire AdvantEdge is a data-driven product, which matches registered users with jobs offered by our employment partners, qualifies those registered users for our partners' jobs, secures an indication of interest, and directly provides our partner with the registered user's information or submits an application on behalf of the registered user to our partner's recruitment system. This allows us to deliver to recruiters qualified candidates in an efficient manner with very little lag in time. Hire AdvantEdge was made possible by the combination of Professional Diversity Network's current interaction with job seekers seeking hourly level positions, its technology and our relationships with employers who desire to recruit qualified diverse talent. The PDN Network Hire AdvantEdge product delivers enhanced membership value to those registered users seeking to reenter the workforce or to upgrade their professional employment condition. This benefit comes at no additional cost to members, reinforcing the membership value proposition and creating long-term value.

PDN(Hired). We use matching and targeting technology to match members with our partners on a renewing license basis, designed to provide the Company with increasing residual income as we add new partners and sell additional licenses. Though in its early stages, the PDN(Hired) product is a significant step towards increasing online sales in a scalable and residual manner. In 2017 we combined the functionality of these two products and relaunched them as PDN Quick. This product meets the increased demand of entry level and hourly workforce needs of our clients. The product is a solution for America's shrinking unemployment rate which has decreased the amount of readily available hourly/part-time workers but driven demand higher for growing employers. PDN Quick harnesses the 5,000 daily inbound candidate interactions PDN receives and geographically matches these candidates to our clients in real-time while also screening for the exact job requirements needed by each client. The product has a unique Pay Only For Performance structure in which employers only pay when qualified and interested candidates are delivered directly to them for specific in-demand roles. The product utilizes SMS Texting technology to reach interested candidates which creates very little lag time and increased savings and efficiencies for both PDN and our clients. PDN Quick is offered to employers on a Cost Per Applicant ("CPA") basis. This enables employers to pay only for applicants they receive, as opposed to a diversity outreach campaign that promotes job openings for a fixed amount based on the number of jobs offered and the duration of the job promotions.

PDN Diversity Placement. In 2018, the Company launched a diversity placement service that has initially focused on high demand positions in digital transformation and finance. We are currently recruiting for leading employers who pay a monthly license fee and a percentage of the first year's annual salary plus bonus for candidates we source and they hire. We believe our superior brand positioning, large network of diverse talent and our vast employer relationships position us well for continued growth in this segment in 2018 and beyond.

China Operations

The Company began establishing business operations in China in 2017. Our business activities, similar to those in the United States, will focus on providing tools, products and services in China, which will assist in personal and professional development. Our business plans are developed in an asset light format, with the goal of providing maximum positive results for the Company and our customers, with the least capital investment possible. We are cooperating with existing companies and organizations in China in a manner that will deliver best in class products and services, in a short time frame with minimum investment from the Company.

Women's Networking in China

The Company's NAPW women's networking asset gives us the ability to develop and begin similar affinity networking operations in China. We have named our China expansion of NAPW "The International Association of Women" (the "IAW"). IAW will have similar elements as NAPW, but its scope has been customized and expanded to meet the particular needs of Chinese women. The association will be supported by a proprietary web platform that will have key networking functions, including but not limited, to members profile, with members picture and biography. The site will facilitate searching for other members, adding members to one's platform, posting alerts and updates, endorsing members, suggesting members to other members, job seeking functions, job opportunity advertising from employers seeking to hire IAW members and other functions to support personal and professional development. The IAW website will also serve as a platform for product and service offerings for training and social networking for women in China. IAW plans to integrate various resources to build a new concept for clients : to create part of the cross-border internet, to mix traditional models with internet models and to explore online and offline resources as well as to allow members to build individual social circles of one's own in the new internet age.

More than only an online network, IAW is intended to be a bilingual, international social platform through which members can enjoy high quality private customized service. We plan on having a very significant structure of off-line activities, events and resources, to facilitate personal and professional development of women in China and further, to expand benefits to other women in other nations. In the near term, we plan on leveraging our NAPW capabilities to provide benefits for our IAW members traveling in the United States. Furthermore, IAW will provide members with personal assistance by which members can enjoy one to one high-end services determined by members' immediate needs. The platform will provide financial "account housekeepers", health advisors, exclusive image designers, legal consultations, translation orientation, child care referrals and other comprehensive high-end services in China.

Education and Training for Accomplished Chinese Business People

The Company launched education and training seminars in China in 2017. The events in China feature leading experts in business, finance, social networking and lifestyle issues. These events benefit participants by delivering timely, focused and meaningful content, and at the same time, allow for participants to network together in a manner that will be mutually beneficial.

Operations: Sales, Marketing and Customer Support

Sales and Marketing

We sell NAPW/IAW Network membership subscriptions offline through our NAPW/IAW Network sales force, which currently includes 5 sales professionals, all of whom sell initial membership services. We developed a secure, work-from-home technology along with a training and supervision platform aimed at reducing the overhead costs, increasing per-representative profitability, and offering our sales professionals flexible working arrangements. All sales representatives are capable of selling upgraded memberships and ancillary products. We believe that we maintained high visibility for the NAPW Network during 2018 through its nearly 300,000,000 advertisements served online, in-person impressions through its live networking activities and interactions via its online properties and social media accounts. The number was lower than previous years as we segmented ads and targeted our audiences, which was designed to yield a lower cost per impression and provide a higher return per marketing dollar spent.

Our PDN sales resources for recruitment and recruitment advertising products and services include a sales force with 10 sales professionals, third-party strategic partners who deliver employers with demand for our products, and technology, which facilitates e-commerce transactions. We market directly to employers and third-party recruiters. Our sales team uses a combination of telephone, email and face-to-face marketing, including personal visits to companies or their recruitment agencies, as well as appearances at industry and trade group events where diversity recruitment recruiters are in attendance. We have also formed strategic alliances with parties who are able to help extend our organic reach. In addition, we are developing purely online marketing channels to bring recruiters to us in bulk and use products based on a matching and targeting technology to facilitate sales. Our recruitment and recruitment advertising sales force is divided between three groups: (i) the “table-setters,” who are responsible for setting up first meetings with prospect companies, (ii) the career sales professionals, who conduct the first meeting and mature the conversation to a successful conclusion, and (iii) sales professionals who provide ongoing account management and are responsible for successful client renewals. We have specialty units within our sales force dedicated to serving: (i) federal, state and local governments and companies and contractors who serve these governmental entities, (ii) small and medium sized businesses as defined by companies with less than 2,500 employees and (iii) large enterprises with greater than 2,500 employees.

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Customer Support, Compliance and Testing

In addition to our sales professionals, we also employ support teams to provide customer support, compliance and testing. Our customer support teams work together to improve engagement with our members and to ensure a high degree of member satisfaction and retention. Our compliance team focuses on ensuring the integrity of the NAPW Network sales process. The team works closely with customer support and sales management to ensure that sales are conducted in an ethical manner and to identify sales representatives who would benefit from enhanced training. Our testing team consists of representatives who work with our Development and Executive teams to identify new lead-generation, sales and membership product opportunities, and to test those as well as new approaches to our current sales.

Our Strengths

We believe the following elements give us a competitive advantage to accomplish our mission:

Dedicated Focus on Diverse Professionals. Our focus on providing career opportunities for diverse professionals differentiates us from other online social networking websites, such as Facebook. We believe our websites have a distinctly career-oriented feel and utility when compared with other online social networking websites. We believe that users prefer to manage their professional and social identities and contacts separately. While other online professional networking websites, such as LinkedIn, also have a professional focus, we are singularly focused on diverse professionals in the United States. We believe that we communicate effectively with each of our diverse communities and create environments that harness a natural affinity among members of common culture, ethnicity, gender, orientation, nationality and experience to stimulate increased member trust, networking and engagement.

Online and Offline Diversity Career Services. The Company has a comprehensive and coordinated method of connecting diverse job seekers with companies seeking to hire diverse employees. Our advantage comes through our call center operations which facilitate timely, accurate matching of job seekers and employers. Many competitors do not have such a service in-house. Additionally, we operate live and virtual job fairs which allow job seekers and employers to meet one-on-one. Many competitors also have to outsource this service. We provide a wide continuum of contact points to facilitate employers' desire to identify and hire diverse talent in an OFCCP-compliant manner.

Platform That Harnesses the Power of Web Socialization. We believe that our membership base will continue to grow and that our platform will be an increasingly powerful tool that enables our members to leverage their connections and shared information for the collective benefit of all of the participants on our platform. We believe that we are the first online professional network to focus on the diversity recruitment sector.

Relationships with Strategic Partners. We believe that our relationships with strategic partners are difficult to replicate and give us a competitive advantage in the networking opportunities, career tools and resources we can offer to our members, as well as the diverse audiences we can access for employers and advertisers.

Relationships with Professional Entities & Organizations. Our team has experience working with multicultural professional organizations. We partner with a number of leading minority professional organizations, including:

DisabledPersons.com;
Ebony Magazine
The Grio
HireVeterans.com
National Association of Hispanic Journalists (NAHJ)
Illinois Hispanic Nursing Association
IT Diversity Careers
The Commonwealth Compact
Greek Diversity
Latinos in Information Science and Technology Association (LISTA)
Job Opportunities for Disabled American Veterans (JOFDAV)
Veterans Exchange
National Association of African Americans in Human Resources
National Association for the Advancement of Colored People (NAACP)
The National Urban League
VFW Veterans Job Board Vetjobs
Wall Street Warfighters
Women in Biology

Customized Technology Platform. Our technology platform has been custom-designed and built to facilitate networking engagement, job searching, real-time job qualification and matching, and text-based communications.

We believe that the following elements give us a competitive advantage with respect to the NAPW Network:

Exclusive Focus on Professional Women. As a result of NAPW Network's exclusive focus on professional women, we believe that through NAPW Network we provide a secure and less intimidating environment within which our members can successfully network and establish new and lasting business relationships.

Attractive Industry Demographic Trends. Favorable demographic trends regarding women's participation in the labor force will further the growth in NAPW Network's membership base and we have first-mover advantage with respect to generalized professional networking for women.

Large, growing and diverse national membership base. We believe that NAPW Network is the largest women-only networking organization in the United States by number of members, with approximately 954,000 members located in all 50 states, Puerto Rico and the U.S. Virgin Islands. The membership base of the NAPW Network is diverse in terms of ethnicity, age, income, experience, industry and occupation. It includes members from small and large corporations, as well as entrepreneurs and business owners. We believe the diversity of the NAPW Network membership base is a key component of its value.

Comprehensive Product and Service Offerings to Deliver Value to Members. We believe that our comprehensive product offerings provide women valuable tools to help them advance their careers and expand their businesses. Through networking opportunities online and at local chapter events in their communities, regional events and the NAPW Network national Networking Conference, discounts provided on seminars, webinars and educational certification courses, and opportunities to promote themselves and their businesses, NAPW members are provided the opportunities and tools for their professional development.

Business Model with Efficient Member Acquisition and Recurring Cash Flow. We believe that NAPW Network's direct marketing lead generation efforts, which utilize both direct mail and digital strategies, are among the most efficient in the industry as measured by our internal response and click-through rates. This efficiency, combined with our effective call center operations, results in what we believe to be our market leading members acquisition process and direct variable contribution. Further, NAPW Network memberships renew annually, providing a valuable recurring stream of cash flow.

Strategic Alliances

We consider our partner alliances to be a key value to our clients because it enables us to expand our job distribution and outreach efforts. We continue to expand our relationships with key strategic partners that we believe are valuable to our core clients, as noted in section "*Our Strengths*" above.

Operations: Geography

Our headquarters is located in Chicago, Illinois, and houses our CFO, as well as many of our sales, marketing and IT personnel. We also have an office in Minnetonka, MN where our telesales team for our Events business is located. Websites for the PDN Network are hosted by Engine Yard. Engine Yard provides a robust and easy platform for our hosting needs, allowing us to scale up resources to meet our peak needs. It also allows us to quickly and easily deploy website updates. Our websites have backup and contingency plans in place in the event that an unexpected circumstance occurs.

Our headquarters in China is located in Guangzhou, Guangdong Province, China. We also have an office in Jiangxi, China.

Intellectual Property

To protect our intellectual property rights, we rely on a combination of federal, state and common law rights, as well as contractual restrictions. We rely on trade secret, copyright and trademark rights to protect our intellectual property. We pursue the registration of our domain names and trademarks in the United States. Our registered trademarks in the United States include the "iHispano" mark with stylized logo, the "Black Career Network" mark with stylized logo, the "Professional Diversity Network" mark with our tagline "the power of millions for the benefit of one," the name "National Association of Professional Women" and "NAPW," and the name "International Association of Women" and "IAW." We also own the copyrights to certain articles in NAPW publications. We strive to exert control over access to our intellectual property and customized technology by entering into confidentiality and invention assignment agreements with our employees and contractors and confidentiality agreements with third parties in the ordinary course of our business.

Our efforts to protect our proprietary rights may not be successful. Any significant impairment of our intellectual property rights could adversely impact our business or our ability to compete. In addition, protecting our intellectual property rights is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and adversely affect our operating results.

Competition

We face significant competition in all aspects of our business. Specifically, with respect to our members and our recruitment consumer advertising and marketing solutions, we compete with existing general market online professional networking websites, such as LinkedIn and Monster Worldwide, Inc., as well as ethnic minority focused social networking websites, such as Black Planet and LatPro, and other companies such as Facebook, Google, Microsoft and Twitter that are developing or could develop competing solutions. We also generally compete with online and offline enterprises, including newspapers, television and direct mail marketers that generate revenue from recruiters, advertisers and marketers, and professional organizations. With respect to our hiring solutions, we also compete with traditional online recruiting companies such as Career Builder, talent management companies such as Taleo, and traditional recruiting firms.

Larger, more well-established companies may focus on professional networking and could directly compete with us. Other companies might also launch new competing services that we do not offer. Nevertheless, we believe that our focus on diverse online professional networking communities and the number of registered users or members, as the case may be, overall and within each affinity that we serve, are competitive strengths in our market.

Government Regulation

We are subject to a number of federal, state and foreign laws and regulations that affect companies conducting business on the Internet. These laws are still evolving and could be amended or interpreted in ways that could be detrimental to our business. In the United States and abroad, laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement and other theories based on the nature and content of the materials searched, the advertisements posted or the content provided by users. Any court ruling or other governmental action that imposes liability on providers of online services for the activities of their users and other third parties could materially harm our business. In addition, rising concern about the use of social networking technologies for illegal conduct, such as the unauthorized dissemination of national security information, money laundering or supporting terrorist activities may in the future produce legislation or other governmental action that could require changes to our products or services, restrict or impose additional costs upon the conduct of our business or cause users to abandon material aspects of our service.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security incident, or security breach for personal data, or requiring the adoption of minimum information security standards that are often unclear and difficult to implement. The costs of compliance with these laws are significant and may increase in the future. Further, we may be subject to significant liabilities if we fail to comply with these laws.

We are also subject to federal, state and foreign laws regarding privacy and protection of member data. We post on our websites our privacy policy and terms of use. Compliance with privacy-related laws may be costly. However, any failure by us to comply with our privacy policy or privacy-related laws could result in proceedings against us by governmental authorities or private parties, which could be detrimental to our business. Further, any failure by us to protect our members’ privacy and data could result in a loss of member confidence in us and ultimately in a loss of members and customers, which could adversely affect our business.

Because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees or infrastructure.

Our direct marketing operations with respect to the NAPW Network are subject to various federal and state “do not call” list requirements. The Federal Trade Commission has created a national “do not call” registry. Under these federal regulations, consumers may have their phone numbers added to the national “do not call” registry. Generally, we are prohibited from calling anyone on that registry. In September 2003, telemarketers were granted access to the registry and are now required to compare their call lists against the national “do not call” registry at least once every 31 days. Telemarketers are required to pay a fee to access the registry. Enforcement of the “do not call” provisions began in late 2003, and the rule provides for fines of up to $16,000 per violation and other possible penalties. These rules may be construed to limit our ability to market our products and services to new customers. Further, we may incur penalties if we do not conduct our telemarketing activities in compliance with these rules.

Seasonality

Our quarterly operating results are affected by the seasonality of employers' businesses. Historically, demand for employment hiring is lower during the first quarter and typically increases during the remainder of the year.

Employees

As of December 31, 2018, we had a total of 94 employees; 60 were full time employees in various U.S. locations and 27 full-time employees in China. We also regularly engage independent contractors to perform various services. As of December 31, 2018, we engaged 7 independent contractors. None of our employees are covered by a collective bargaining agreement. We believe that we have good relationships with our employees.

Corporate History

We were incorporated in Illinois in October 2003 under the name of IH Acquisition, LLC and changed our name to iHispano.com LLC in February 2004. In 2007, we changed our business platform and implemented technology to become the operator of communities of professional networking sites for diverse professionals. In March 2012, we changed our name to Professional Diversity Network, LLC. In March 2013, we completed our initial public offering and converted from an Illinois LLC to a Delaware corporation. In September 2014 we acquired the NAPW Network through a merger of NAPW, Inc., a New York corporation ("Old NAPW") with and into NAPW Merger Sub, Inc., a Delaware corporation and our wholly-owned subsidiary ("Merger Sub"). Upon the closing of the merger under the Agreement and Plan of Merger, between Merger Sub, Old NAPW and Matthew B. Proman, the sole shareholder of Old NAPW, dated July 11, 2014 (the "Merger Agreement"), Old NAPW ceased to exist and Merger Sub continued as the surviving corporation, and a wholly-owned subsidiary of the Company, which was renamed to NAPW, Inc.

We started our operations in China in March 2017. We established two entities in Hong Kong, PDN (Hong Kong) International Education Ltd and PDN(Hong Kong)International Education Information Co., Ltd in January 2017, and the Company established its China subsidiary, PDN (China) International Culture Development Co. Ltd in March 2017. In November of 2017, Jiangxi PDN Culture Media Co., Ltd became a consolidated variable interest entity.

Our principal executive offices are located at 801 W. Adams Street, Suite 600, Chicago, Illinois, 60607 and our telephone number is (312) 614-0950. Our website address is www.ipdnusa.com. References to our website addressed in this report are provided as a convenience and do not constitute, and should not be viewed as an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

ITEM 1A - RISK FACTORS

Investing in our common stock involves a high degree of risk. *You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report, including our consolidated financial statements and related notes, before making an investment in our common stock . If any of the following risks are realized, our business, results of operations, cash flows and financial condition could be materially and adversely affected. In that event, the market price of our common stock could decline, and you may lose all or part of your investment.*

Risks Related to Our Business and Financial Condition

We have incurred net losses, our liquidity has been significantly reduced and we could continue to incur losses and negative cash flow in the future.

We recorded net loss from continuing operations of approximately $14.6 million for the year ended December 31, 2018 and $21.6 million for the year ended December 31, 2017. Our revenue declined from $16.1 million to $8.5 million during 2018, however, our costs and expenses substantially decreased from $39.3 million to $24.6 million, and as a result our losses from operations also decreased from $23.3 million to $16.2 million during 2018. Included in the year ended December 31, 2018 is a $5.3 million impairment charge on goodwill, and $2.8 million impairment charge on our long-lived intangible assets. In addition, we used $5.0 million in cash flow from operations during the year ended December 31, 2018. We will need to generate increased revenues and implement aggressive cost management to achieve profitability and positive cash flow from operations. Despite our efforts, including our restructuring and cost-cutting program, we may not achieve profitability or positive cash flow in the future, and even if we do, we may not be able to sustain being profitable.

The market for online professional networks is highly competitive, and if we are unable to compete effectively our sales and results of operations will suffer.

We face significant competition in all aspects of our business, and we expect such competition to increase, particularly in the market for online professional networks.

Our industry is rapidly evolving and is becoming increasingly competitive. Larger and more established online professional networking companies, such as LinkedIn or Monster Worldwide, may focus on the online diversity professional networking market and could directly compete with us. Rival companies or smaller companies, including application developers, could also launch new products and services that could compete with us and gain market acceptance quickly. Individual employers have and may continue to create and maintain their own network of diverse candidates.

We also expect that our existing competitors will focus on professional diversity recruiting. A number of these companies may have greater resources than we do, which may enable them to compete more effectively. For example, our competitors with greater resources may partner with wireless telecommunications carriers or other Internet service providers that may provide Internet users, especially those that access the Internet through mobile devices, incentives to visit our competitors' websites. Such tactics or similar tactics could decrease the number of our visits, unique visitors and number of users and members, which would materially and adversely affect our business, operating results and financial condition.

Additionally, users of online social networks, such as Facebook, may choose to use, or increase their use of, those networks for professional purposes, which may result in those users decreasing or eliminating their use of our specialized online professional network. Companies that currently do not focus on online professional diversity networking could also expand their focus to diversity networking. LinkedIn may develop its own proprietary online diversity network and compete directly against us. To the extent LinkedIn develops its own network or establishes alliances and relationships with others, our business, operating results and financial condition could be materially harmed. Finally, other companies that provide content for professionals could develop more compelling offerings that compete with us and adversely impact our ability to keep our members, attract new members or sell our solutions to customers.

If we do not continue to attract new members to the NAPW Network, or if existing NAPW Network members do not renew their subscriptions, renew at lower levels or on less favorable terms, or fail to purchase additional offerings, we may not achieve our revenue projections, and our operating results would be harmed.

In order to grow the NAPW Network, we must continually attract new members to the NAPW Network, sell additional product and service offerings to existing NAPW Network members and increase the level of renewals. Our ability to do so depends in large part on the success of our sales and marketing efforts. Unlike companies that provide more tangible products, the nature of our product and service offerings is such that members may decide to terminate or not renew their agreements because they do not see their cancellation as causing significant disruptions to their own businesses.

We must demonstrate to NAPW Network members that our product and service offerings provide them with access to an audience of influential, affluent and highly-educated women. However, potential members may not be familiar with our product and service offerings or may prefer other more traditional products and services for their professional advancement and networking needs. The rate at which we expand the NAPW Network's membership base or increase its members' renewal rates may decline or fluctuate because of several factors, including the prices of product and service offerings, the prices of products and services offered by competitors or reductions in their professional advancement and networking spending levels due to macroeconomic or other factors and the efficacy and cost-effectiveness of our offerings. If we do not attract new members to the NAPW Network or if NAPW Network members do not renew their agreements for our product and service offerings, renew at lower levels or on less favorable terms or do not purchase additional offerings, our revenue may grow more slowly than expected or decline.

We may not be able to successfully identify and complete sufficient acquisitions to meet our growth strategy, and even if we are able to do so, we may not realize the anticipated benefits of these acquisitions.

Part of our growth strategy is to acquire companies that we believe will add to and/or expand our service offerings.

Identifying suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to identify suitable candidates or complete acquisitions in a timely manner, on a cost-effective basis or at all. Even if we complete an acquisition, we may not realize the anticipated benefits of such acquisition. Actual cost savings and synergies which may be achieved from an acquired entity may be lower than expected and may take a longer time to achieve than we anticipate. Our acquisitions have previously required, and any similar future transactions may also require, significant efforts and expenditures, in particular with respect to integrating the acquired business with our historical business. We may encounter unexpected difficulties, or incur unexpected costs, in connection with acquisition activities and integration efforts, which include:

- conflicts and inconsistencies in information technology and infrastructures;
- inconsistencies in standards, controls, procedures and policies, business cultures and compensation structures between us and an acquired entity;
- difficulties in the retention of existing customers and attraction of new customers;
- overlap of users and members of an acquired entity and one of our websites;
- difficulties in retaining key employees;
- the identification and elimination of redundant and underperforming operations and assets;
- diversion of management's attention from ongoing business concerns;
- the possibility of tax costs or inefficiencies associated with the integration of the operations; and
- loss of customer goodwill.

If we fail to successfully complete the integration of an acquired entity, or to realize the anticipated benefits of the integration of an acquired entity, our financial condition and results of operations could be materially and adversely affected.

We rely heavily on our information systems and if our access to this technology is impaired, or we fail to further develop our technology, our business could be significantly harmed.

Our success depends in large part upon our ability to store, retrieve, process and manage substantial amounts of information, including our database of our members. To achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our information systems. Our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our information systems to evolving industry standards and to improve the performance and reliability of our information systems. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software. Our inability to design, develop, implement and utilize, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively would materially and adversely affect our business, financial condition and operating results.

Our direct sales strategy, which requires personal interaction with employers and third party recruiters, may limit our ability to grow recruitment revenue and recruitment advertising revenue.

As part of our strategy to market our products and services directly to employers and third party recruiters, we rely on our direct sales force for recruitment revenue and recruitment advertising revenue. We currently employ professionals in sales, sales support and marketing who are trained in selling our products and services. Since its creation in 2013, we have been optimizing the direct sales team and refining the manner in which our products and services are sold. While the Company made progress in growing its direct sales, we have not matured the sales force to the point of predictability, nor have we sold enough services to achieve profitability. There is no assurance that our direct sales strategy we will yield sufficient recruitment revenue and recruitment advertising revenue in the future.

We may not timely and effectively scale and adapt our existing technology and network infrastructure to ensure that our websites are accessible within an acceptable load time.

An element that is key to our continued growth is the ability of our members and other users that we work with to access any of our websites within acceptable load times. We call this website performance. We have experienced, and may in the future experience, website disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our websites simultaneously, and denial of service or fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these website performance problems within an acceptable period of time.

If any of our websites are unavailable when users attempt to access them or they do not load as quickly as users expect, users may seek other websites to obtain the information or services for which they are looking, and may not return to our websites as often in the future, or at all. This would negatively impact our ability to attract members and other users and increase engagement on our websites. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, operating results and financial condition may be materially and adversely affected.

Our systems are vulnerable to natural disasters, acts of terrorism and cyber-attacks.

Our systems are vulnerable to damage or interruption from catastrophic occurrences such as earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, cyber-attacks and similar events. For systems which are not based in cloud storage, we have implemented a disaster recovery program, maintained by a third party vendor, which allows us to move production to a back-up data center in the event of a catastrophe. Although this program is functional, it does not yet provide a real-time back-up data center, so if our primary data center shuts down, there will be a period of time that such website will remain shut down while the transition to the back-up data center takes place. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our hosting facilities could result in lengthy interruptions in our services. Although we carry cyber security insurance our claims may exceed the insurance coverage, and we may not be fully compensated by third party insurers in the event of service interruption or cyber-attack. Furthermore, our business may never recover from such an event.

If our security measures are compromised, or if any of our websites are subject to attacks that degrade or deny the ability of members or customers to access our solutions, members and customers may curtail or stop use of our solutions.

Our members provide us with information relevant to their professional networking and/or career-seeking experience with the option of having their information become public or remain private. If we experience compromises to our security that result in website performance or availability problems, the complete shutdown of our websites or the loss or unauthorized disclosure of confidential information, our members may lose trust and confidence in us, and will use our websites less often or stop using our websites entirely. Further, outside parties may attempt to fraudulently induce employees, members or customers to disclose sensitive information in order to gain access to our information or our members' or customers' information. Because the methods used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these methods or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new members and increase engagement by existing members, cause existing members to close their accounts or existing customers to cancel their contracts, subject us to lawsuits, regulatory fines or other action or liability, thereby materially and adversely affecting our reputation, our business, operating results and financial condition.

The widespread adoption of different smart phones, smart phone operating systems and mobile applications, or apps, could require us to make substantial expenditures to modify or adapt our websites, applications and services.

The number of people who access the Internet through devices other than personal computers, including personal digital assistants, smart phones and handheld tablets or computers, has increased dramatically in the past few years and we believe this number will continue to increase. Each manufacturer or distributor of these devices may establish unique technical standards, and our services may not work or be viewable on these devices as a result. Furthermore, as new devices and new platforms are continually released, it is difficult to predict the problems we may encounter in developing versions of our services for use on these alternative devices and we may need to devote significant resources to the creation, support and maintenance of such devices. Our websites are designed using responsive technology and are built to provide a positive user experience on a user's Internet device, whether a mobile phone, and tablet, laptop or personal computer. If we are slow to develop products and technologies that are compatible with such devices, we might fail to capture a significant share of an increasingly important portion of the market for our services.

If Internet search engines' methodologies are modified or our search result page rankings decline for other reasons, our member engagement and number of members and users could decline.

We depend in part on various Internet search engines, such as Google, Bing and Yahoo!, to direct a significant amount of traffic to our websites. Our ability to maintain the number of visitors directed to our websites is not entirely within our control. Our competitors' search engine optimization ("**SEO**") efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies in an attempt to improve their search results, which could adversely affect the placement of our search result page ranking. If search engine companies modify their search algorithms in ways that are detrimental to our new user growth or in ways that make it harder for our members to use our websites, or if our competitors' SEO efforts are more successful than ours, overall growth in our member base could slow, member engagement could decrease, and we could lose existing members. These modifications may be prompted by search engine companies entering the online professional networking market or aligning with competitors. Our websites have experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of users directed to our websites would materially harm our business and operating results. Our platform includes connectivity across the social graph, including websites such as Facebook, Google+, LinkedIn and Twitter. If for any reason these websites discontinue or alter their current open platform policy it could have a negative impact on our user experience and our ability to compete in the same manner we do today.

Wireless communications providers may give their customers greater access to our competitors' websites.

Wireless communications providers may provide users of mobile devices greater access to websites that compete with our websites at more favorable rates or at faster download speeds. This could have a material adverse effect on the Company's business, operating results and financial condition. Creation of an unequal playing field in terms of Internet access could significantly benefit larger and better capitalized companies competing with us.

The effect of significant declines in our ability to generate revenue may not be reflected in our short-term results of operations.

We recognize revenue from sales of our hiring solutions over the life of a contract (typically 12 months) beginning the first month after the contract is signed. As a result, a significant portion of the revenue we report in each quarter is generated from agreements entered into during previous quarters. In addition, we may be unable to adjust our fixed costs in response to reduced revenue. Accordingly, the effect of significant declines in our ability to generate revenue may not be reflected in our short-term results of operations.

The reported number of our registered users is higher than the number of actual individual users, and a substantial majority of our visits are generated by a minority of our users.

The reported number of members in our networks is higher than the number of actual individual members because some members have multiple registrations, other members have died or become incapacitated, and others may have registered under fictitious names. Given the challenges inherent in identifying these accounts, we do not have a reliable system to accurately identify the number of actual members, and thus we rely on the number of members as our measure of the size of our networks. Further, a substantial majority of our members do not visit our websites on a monthly basis, and a substantial majority of our visits are generated by a minority of our members and users. If the number of our actual members does not meet our expectations or we are unable to increase the breadth and frequency of our visiting members, then our business may not grow as fast as we expect, which would materially and adversely affect our business, operating results and financial condition.

The existing global economic and financial market environment has had, and may continue to have, a negative effect on our business and operations.

Demand for our services is sensitive to changes in the level of economic activity. Many companies hire fewer employees when economic activity is slow. Following the financial crisis in 2008, unemployment in the U.S. increased and hiring activity was limited. Although the economy has begun to recover and unemployment in the U.S. has improved, if the economy does not continue to recover or worsens, or unemployment returns to high levels, demand for our services and our revenue may be reduced. In addition, lower demand for our services may lead to lower prices for our services. The volatility in global financial markets may also limit our ability to access the capital markets at a time when we would like, or need, to raise capital, which could have an impact on our ability to react to changing economic and business conditions. Accordingly, if the economy does not fully recover or worsens, our business, results of operations and financial condition could be materially and adversely affected.

Our growth strategy may fail as a result of changing social trends.

Our business is dependent on the continuity of certain social trends, such as the increasing socialization of the Internet, the demographic trend towards women's career advancement, the growing ethnic diversity of the United States population and labor force, a regulatory environment that promotes diversity in the workplace, the growing ethnic population's spending power and the acceptance and growth of online recruitment and advertising. Some or all of these trends may change overtime. For example, increased privacy concerns may jeopardize the growth of online social and professional network websites. Furthermore, it is possible that people may not want to identify in online social or professional networks with a focus on diversity at all. Or alternatively, people who belong to more than one diversity group (such as Hispanic-American females, among others) may not be drawn to our websites, which singularly focus on one specific diversity group. Our strategy may fail as a result of these changing social trends, and if we do not timely adjust our strategy to adapt to changing social trends, we will lose members, and our business, operating results and financial condition would be materially and adversely affected.

The regulatory environment favorable to promoting diversity in the workplace may change.

Federal and state laws and regulations require certain companies engaged in business with governmental entities to report and promote diverse hiring practices. Repeal or modification of such laws and regulations could decrease the incentives for employers to actively seek diverse employee candidates through networks such as ours and materially affect our revenues.

If our member profiles are out-of-date, inaccurate or lack the information that users and customers want to see, we may not be able to realize the full potential of our networks, which could adversely impact our future growth.

We do not impose any selective or qualification criteria on membership and do not verify that any member of a particular Company website qualifies as a member of the ethnic, cultural or other group identified by that website. If our members do not update their information or provide accurate and complete information when they join our networks or do not establish sufficient connections, the value of our networks may be negatively impacted because our value proposition as diversity professional networks and as a source of accurate and comprehensive data will be weakened. For example, our hiring solutions customers may find that certain members misidentify their ethnic, national, cultural, racial, religious or gender classification, which could result in mismatches that erode customer confidence in our solutions. Similarly, incomplete or outdated member information would diminish the ability of our marketing solutions customers to reach their target audiences and our ability to provide research data to our customers. Therefore, we must provide features and products that demonstrate the value of our networks to our members and motivate them to add additional, timely and accurate information to their profile and our networks. If we fail to successfully motivate our members to do so, our business, operating results and financial condition could be materially and adversely affected.

Our business depends on strong brands, and any failure to maintain, protect and enhance our brands would hurt our ability to retain or expand our base of members, enterprises and professional organizations, or our ability to increase their level of engagement.

We have devoted significant resources to develop our brands, particularly NAPW. That brand is predicated on the idea that professional women will trust it and find value in building and maintaining their professional identities and reputations on the NAPW Network platform. Maintaining, protecting and enhancing all of our brands is critical to expanding the base of members for the NAPW Network and PDN Network and increasing their engagement with the product and services offerings of the Company, and will depend largely on our ability to maintain member trust, be a technology leader and continue to provide high-quality offerings, which we may not do successfully in the future. Despite our efforts to protect our brands and prevent their misuse, if others misuse any of our brands or pass themselves off as being endorsed or affiliated with the NAPW Network or the PDN Network, it could harm our reputation and our business could suffer. If members of any of our networks or potential members determine that they can use other platforms, such as social networks, for the same purposes as or as a replacement for the NAPW Network or the PDN Network, or if they choose to blend their professional and social networking activities, our brands and the business of the Company could be harmed. Members of any of our networks could find that new product or service offerings that are introduced are difficult to use or may feel that they degrade their experience with our organization, which could harm the reputation of the networks and the Company for delivering high-quality offerings. Our brands are also important in attracting and maintaining high performing employees. If we do not successfully maintain strong and trusted brands for our networks, our business can be materially and adversely affected.

Failure to protect or enforce our intellectual property rights could materially harm our business and operating results.

We regard the protection of our intellectual property as critical to our success. In particular, we must maintain, protect and enhance our brands. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. In the ordinary course, we enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information and customized technology platform. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others.

We pursue the registration of our domain names, trademarks and service marks in the United States and in certain locations outside the United States. Effective trademark, trade dress and domain names are expensive to develop and maintain, both in terms of initial and ongoing registration requirements and the costs of defending our rights. We are seeking to protect our trademarks and domain names, a process that is expensive and may not be successful.

Litigation may be necessary to enforce our intellectual property rights or determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business and operating results. We may incur significant costs in enforcing our trademarks against those who attempt to imitate our brands. If we fail to maintain, protect and enhance our intellectual property rights, our business and financial condition could be materially and adversely affected.

We process, store and use personal information and other data, which subjects us to governmental regulation, enforcement actions and other legal obligations or liability related to data privacy and security, and our actual or perceived failure to comply with such obligations could materially and adversely affect our business.

We receive, store and process personal information and other member data, and we enable our members to share their personal information with each other and with third parties. There are numerous federal, state, local and foreign laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other member data, the scope of which are changing, subject to differing interpretations and may be inconsistent between countries or conflict with other rules. We generally comply with industry standards and adhere to the terms of our privacy policies and privacy-related obligations to third parties (including voluntary third-party certification bodies such as TRUSTe). We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other member data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our members and customers to lose trust in us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as customers, vendors or developers, violate applicable laws or our policies, such violations may also put our members' information at risk and could in turn have an adverse effect on our business.

Public scrutiny of Internet privacy issues may result in increased regulation and different industry standards, which could deter or prevent us from providing our current products and solutions to our members and customers, thereby materially harming our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet have recently come under increased public scrutiny. The U.S. government, including the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain on-line tracking and targeted advertising practices. In addition, various government and consumer agencies have also called for new regulations and changes in industry practices.

Our business could be adversely affected if legislation or regulations are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices or that require changes to these practices, the design of our websites, products, features or our privacy policy. In particular, the success of our business has been, and we expect will continue to be, driven by our ability to use the data that our members share with us in accordance with each of our website privacy policies and terms of use. Therefore, our business, operating results and financial condition could be materially and adversely affected by any significant change to applicable laws, regulations or industry practices regarding the use or disclosure of data our members choose to share with us, or regarding the manner in which the express or implied consent of consumers for such use and disclosure is obtained. Such changes may require us to modify our products and features, possibly in a material manner, and may limit our ability to develop new products and features that make use of the data that our members voluntarily share with us.

Our business is subject to a variety of U.S. laws and regulations, many of which are unsettled and still developing and which could subject us to claims or otherwise materially harm our business.

We are subject to a variety of laws and regulations in the United States, including laws regarding data retention, privacy and consumer protection, which are continually evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting. For example, laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement, and other theories based on the nature and content of the materials searched, the ads posted or the content provided by users. In addition, regulatory authorities are considering a number of legislative and regulatory proposals concerning data protection and other matters that may be applicable to our business. It is difficult to predict how existing laws will be applied to our business and the new laws to which we may become subject. See the discussion included in "*Business – Government Regulation*" beginning on page 12 of this Annual Report.

If we are not able to comply with these laws or regulations or if we become liable under these laws or regulations, we could be harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to discontinue certain solutions, which would materially and adversely affect our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could materially harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could materially and adversely affect our business, financial condition and results of operations.

We are currently party to litigation and may in the future be subject to additional legal proceedings and litigation which may be costly to defend and could materially and adversely affect our business results or operating and financial condition.

We are currently party to litigation and may be party to additional lawsuits in the normal course of business. Results of the litigation to which we are a party cannot be predicted with certainty and there can be no assurance that this litigation will be resolved in our favor. These matters are described in more detail under the heading "*Legal Proceedings*." Litigation in general is often expensive and disruptive to normal business operations. We may face in the future allegations and lawsuits that we have infringed the intellectual property and other rights of third parties, including patents, privacy, trademarks, copyrights and other rights. Litigation, particularly intellectual property and class action matters, may be protracted and expensive, and the results are difficult to predict. Adverse outcomes may result in significant settlement costs or judgments, require us to modify our products and features while we develop non-infringing substitutes or require us to stop offering certain features.

From time to time, we may face claims against companies that incorporate open source software into their products, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our solutions, any of which could have a negative effect on our business and operating results.

Our success depends in large part upon our management and key personnel. Our inability to attract and retain these individuals could materially and adversely affect our business, results of operations and financial condition.

We are highly dependent on our management and other key employees. The skills, knowledge and experience of our management team, are critical to the growth of our business. In particular, Mr. Michael Wang, our Chief Executive Officer, provides significant leadership in every aspect of our business operations and strategic direction. In the United States we have a diversified and strong group of experienced and talented leaders, including Ms. Star Jones our President, who is an expert in issues relating to diversity and networking. Ms. Jones is supported by a talented group of knowledgeable executives in business operations, sales and marketing, including Joseph Bzdyl our Executive VP of Operations. Our future performance will be dependent upon the continued successful service of members of our management and key employees. We do not maintain life insurance for any of the members of our management team or other key personnel. Competition for management in our industry is intense, and although we have entered into employment agreements with certain members of our management team, we may not be able to retain our management and key personnel or attract and retain new management and key personnel in the future, which could materially and adversely affect our business, results of operations and financial condition.

We have expanded our business into the Peoples' Republic of China and Hong Kong, which could subject us to risks which could negatively affect our business.

Following the investment in our business by CFL, we expanded our business into China and Hong Kong, which may expose us to risks uniquely affecting the Chinese market. These risks include, among others, changes in economic conditions in China and Hong Kong (including consumer spending, unemployment levels and wage and commodity inflation), local consumer preferences, the regulatory environment, as well as increased media scrutiny of our business and industry, fluctuations in foreign exchange rates and increased competition. In addition, any significant or prolonged deterioration in U.S.-China relations could adversely affect our China operations if Chinese consumers become reluctant to use our websites or become registered users or members of our networks. Chinese law may regulate the scope of our business conducted within China. Our business is therefore subject to numerous uncertainties based on the policies of the Chinese government, as they may change from time to time.

Regulation and censorship of information disseminated over the Internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from, or linked to our Internet websites.

The government of China has adopted certain regulations governing Internet access and the distribution of news and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet content that, among other things, violates Chinese laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory as determined by the applicable Chinese regulatory authorities. Failure to comply with these requirements, even inadvertently, could result in the revocation of required licenses and the closure of our websites. The website operator may also be held liable for such prohibited information displayed on, retrieved from or linked to such website. In addition, the Ministry of Industry and Information Technology has published regulations that subject website operators to potential liability for content included on their websites and the actions of users and others using their websites, including liability for violations of Chinese laws prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local Internet service provider, to block any Internet website maintained outside China at its sole discretion. Periodically, the Ministry of Public Security has stopped the dissemination over the Internet of information which it believes to be socially destabilizing. The State Secrecy Bureau, which is directly responsible for the protection of State secrets of the Chinese government, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the dissemination of online information. If we are determined to violate these regulations, even if the offending content is not generated by us, we could be subject to civil or criminal penalties, fines, revocation of our Internet service provider license and other penalties which could materially impair our operations and our ability to continue in business. As these regulations are subject to interpretation by the relevant authorities, it may not be possible for us to determine in all cases the type of content that could result in liability for us as a website operator. Further, to the extent that the regulations relate to information contained on a website regardless of whether the information is placed on the Internet by the website owner or by a third party, we may not be able to control or restrict the content of other Internet content providers linked to or accessible through our websites, or content generated or placed on our websites by our users, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of our content objectionable, they may require us to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content on our websites, which may reduce our user traffic and have a material adverse effect on our financial condition and results of operations. In addition, we may be subject to significant penalties for violations of those regulations arising from information displayed on, retrieved from or linked to our websites, including a suspension or shutdown of our operations.

Risks Related to Our Common Stock

Our significant stockholder and our directors and executive officers have substantial control over the Company and could limit your ability to influence the outcome of key transactions, including changes of control.

Cosmic Forward Limited (“CFL”) beneficially owned approximately 47.27% of our common stock on a non-diluted basis and 40.7% on a diluted basis as of April 12, 2019. As a result of its ownership CFL is able to influence significantly all matters requiring approval by our stockholders, including the election of directors. In addition, our directors and executive officers and their affiliated entities, in the aggregate, beneficially own approximately 9.95% of our outstanding common stock as of April 12, 2019. Stockholders other than these principal stockholders are therefore likely to have little influence on decisions regarding such matters. These stockholders may have interests that differ from yours, and they may vote in a way with which you disagree and that may be adverse to your interests. The concentration of ownership of our common stock may have the effect of delaying, preventing or deterring a change of control of our Company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company and may affect the market price of our common stock. This concentration of ownership also limits the number of shares of stock likely to be traded in public markets and therefore will adversely affect liquidity in the trading of our common stock. This concentration of ownership of our common stock may also have the effect of influencing the completion of a change in control that may not necessarily be in the best interests of all of our stockholders.

The market price for our securities may be subject to wide fluctuations and the value of an investment in our common stock may decline.

The trading price of our common stock has been, and is likely to continue to be, volatile. Since shares of our common stock were sold in our initial public offering at a price of $64.00 per share, our stock price has ranged from $0.88 to $5.24 during the fiscal year of 2018. In addition to the factors discussed in this Annual Report, the trading price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- price and volume fluctuations in the stock market, including as a result of trends in the economy as a whole or relating to companies in our industry;
- actual or anticipated fluctuations in our revenue, operating results or key metrics, including our number of members and unique visitors;
- investor sentiment with respect to our competitors, our business partners and our industry in general;
- announcements by us or our competitors of significant products or features, technical innovations, strategic partnerships, joint ventures or acquisitions;
- additional shares of our common stock being sold into the market by us or our existing stockholders or the anticipation of such sales; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

The securities of technology companies, especially Internet companies, have experienced wide fluctuations subsequent to their initial public offerings, including trading at prices below the initial public offering prices. Factors that could affect the price of our common stock include risk factors described in this section. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular industries or companies. These market fluctuations may also have a material adverse effect on the market price of our common stock.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

The market price of our common stock could decline as a result of (i) substantial sales of our common stock, particularly sales by CFL and/or our directors, executive officers, employees, or other significant stockholders, (ii) a large number of shares of our common stock becoming available for sale, or (iii) the perception in the market that holders of a large number of shares intend to sell their shares. As a result of the consummation of the issuance and sale of 1,777,417 shares of our common stock to CFL in November 2016, and a subsequent issuance to CFL of an additional 312,500 shares in January 2017, CFL owns 47.3% of our outstanding common stock as of April 12, 2019, with respect to which CFL has the right to require the Company to register the public resale under a registration statement filed with the SEC. The eventual resale of some or all of such shares, or the perception that such sale or sales could be imminent, could result in a material decline in the market value of our common stock. We have also filed a universal shelf registration statement on Form S-3, with the SEC on September 7, 2018, which was declared effective on September 18, 2018. This registration statement provides for the issuance of shares of our common stock, preferred stock, depositary shares, rights, warrants, units and debt securities up to an aggregate amount of $25,000,000.

In addition, 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. For more information about our 2013 Equity Compensation Plan, please see Note 14 of our Consolidated Financial Statements included in this Annual Report. Finally, in February 2017 we registered the public resale of up to 246,445 shares of our common stock by White Winston Select Asset Funds LLC. This registration statement was declared effective on February 13, 2017.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our Company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 1,000,000 shares of undesignated preferred stock;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors, and also specify requirements as to the form and content of a stockholder's notice;
- that our directors may be removed only for cause and only by the affirmative vote of at least a majority of the total voting power of our outstanding capital stock, voting as a single class; and
- do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock voting in any election of directors to elect all of the directors standing for election, if they should so choose).

These provisions may frustrate or prevent attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder. Finally, because CFL holds a majority of our outstanding shares of common stock, CFL's approval will be necessary to effect any change in control.

Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements, which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and could have an adverse effect on our stock price or our debt ratings.

Our management determined that as of December 31, 2018, our internal control over financial reporting had a material weakness related to deficiencies in controls over the application of complex accounting principles, timely and complete financial statement reviews and procedures to ensure all required disclosures are made in our financial statements. Specifically, (i) relevant operating information was not adequately used to develop accounting and financial information and serve as a basis for accounting estimates, (ii) debt agreements were not fully reviewed for appropriate classification of outstanding debt. During 2018, we completed certain measures to remediate material weaknesses related to our internal control over financial reporting that had been identified as of December 31, 2017. Specifically, (i) we centralized the US accounting and HR operations, (ii) improved segregation of duties within our accounting and financial reporting functions, (iii) improved GAAP training of internal staff, and (iv) engaged an outside consultant to assist the Company on complex GAAP matters. Although these measures greatly helped improve our internal controls, they did not fully remediate deficiencies in controls. Additional material weakness identified as of December 31, 2017 in our China operations that was related to control design with contract administration was fully addressed and remediated in 2018.

Additional material weaknesses in our internal control over financial reporting may be identified in the future. Any failure to maintain existing or implement required new or improved controls, or any difficulties we encounter in their implementation, or in remediating identified weakness, could result in additional control deficiencies, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, and cause us to fail to meet our reporting obligations. If we are unable to effectively remediate material weaknesses in a timely manner, investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

We have lost our "emerging growth company" status under the JOBS Act, which could increase the costs and demands placed upon our management.

We were deemed an emerging growth company until December 31, 2018. Since we have lost emerging growth company status, we expect the costs and demands placed upon our management to increase, as we would have to comply with additional disclosure and accounting requirements, particularly if our public float should exceed $250 million on the last day of our second fiscal quarter in any fiscal year following our initial public offering, which would disqualify us as a smaller reporting company.

We do not intend to pay dividends in the foreseeable future.

We do not intend to declare or pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

You will have limited ability to bring an action against certain of our directors and officers, or to enforce a judgment against them, because the majority of our directors and officers reside outside the United States.

A significant number of our directors and officers reside outside the United States and substantially all of the assets of those persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against these individuals in China in the event that you believe your rights have been infringed under the applicable securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of China may render you unable to enforce a judgment against the assets of our directors and officers.

CFL holds participation rights and other rights that could affect our ability to raise funds.

Under our stockholders agreement with CFL and each of its shareholders, Maoji (Michael) Wang, Jingbo Song, Yong Xiong Zheng and Nan Nan Kou (collectively, the “CFL Shareholders”), we granted to CFL and the CFL Shareholders a participation right with respect to any future issuances of common stock by the Company, such that CFL and the CFL Shareholders may purchase an amount of shares necessary to maintain CFL’s then-current beneficial ownership interest, up to a maximum of 54.64% of our then-outstanding common stock, on a fully-diluted basis, subject to certain exceptions. This participation right could limit our ability to enter into equity financings and to raise funds from third parties.

In connection with the stockholders agreement with CFL and the CFL Shareholders, we also granted to CFL and the CFL Shareholders unlimited demand, shelf and piggyback registration rights, effective upon the expiration of CFL’s initial lock-up period, to require us to effect a registration under the Securities Act of a resale of the shares of common stock held by CFL. This may create the perception of a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intent to sell their shares, especially if CFL were to exercise its registration rights, thereby potentially further limiting our ability to enter into equity financings and to raise funds from third parties.

Techniques employed by short sellers may drive down the market price of the Company’s common stock.

Short selling is the practice of selling securities that the seller does not own, but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller’s best interests for the price of the stock to decline, many short sellers (sometime known as “disclosed shorts”) publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog ("blogging") have allowed many disclosed shorts to publicly attack a company's credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firm and independent research analysts.

These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks can be particularly vulnerable to such short attacks.

Reports and information have been published about us which have occasionally been followed by a decline in our stock price. It is not clear what additional effects the negative publicity will have on the Company, if any, other than potentially affecting the market price of our common stock. Additionally, such allegations against the Company could negatively impact its business operations and stockholders equity, and the value of any investment in the Company's stock could be reduced.

ITEM 1B - UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 - PROPERTIES

We lease approximately 11,454 square feet of space for our headquarters in Chicago, Illinois under a lease that expires on June 30, 2020. We also lease approximately 1,800 square feet of office space in Minnetonka, Minnesota for our Events division under a month-to-month lease.

We lease approximately 7,970 square feet office space in Guangzhou, China under a non-cancelable lease arrangement that provides for payments on a graduated basis through December 31, 2019.

We lease approximately 1,950 square feet of office space in Jiangxi Province, China under a non-cancelable lease arrangement that expires on January 30, 2020.

We believe that our current facilities are adequate to meet our current needs. We may expand our facilities or add new facilities as we add employees and enter new geographic markets, and we believe that suitable additional or alternative space will be available as needed to accommodate ongoing operations and any such growth. However, we expect to incur additional expenses in connection with such new or expanded facilities.

ITEM 3 - 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, 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. The four-count complaint in the Federal Action alleged that White Winston is entitled to recover compensatory damages of $1,708,233, plus attorneys’ fees, treble damages and other amounts. White Winston served the complaint on July 12, 2018, and the Company moved to dismiss the entire action for failure to state a claim. On October 15, 2018, prior to addressing the motion to dismiss, the Court issued an order noting that White Winston (which is a limited liability company) had failed to allege the citizenship of its members and ordered White Winston to show cause that complete diversity exists between the parties and that the Court had jurisdiction. On October 23, 2018, White Winston dismissed the Federal Action without prejudice. On December 18, 2018, White Winston filed a complaint in Massachusetts Superior Court in Suffolk County in Boston alleging the same claims and rights to relief as in the Federal Action. The Company has moved to once again to dismiss the complaint in its entirety for failure to state a claim. The entire motion package, comprised of the Company's motion to dismiss and accompanying memorandum, White Winston's opposition, and the Company's reply brief, were filed with the court on Monday, March 25, 2019. The Company denies liability for all claims.

NAPW is a defendant in a Nassau County (NY) Supreme Court case, whereby TL Franklin Avenue Plaza LLC has sued NAPW with respect to NAPW's former Garden City NY Premises. NAPW had surrendered the Premises to the Landlord, and the Landlord is suing NAPW for the balance of the rent due under the Lease Term – which term is less than one year remaining. The case is currently being litigated, and we are currently in the pleadings phase of the litigation.

The Company is a party to a proceeding captioned Gerbie, et al. v. Professional Diversity Network, Inc. (U.S. Dist. Ct., N.D. Ill.), a putative class action alleging violations of the Telephone Consumer Protection Act. A settlement has been reached and case has been dismissed by the court. The Company believes that its practices and procedures were compliant with the Telephone Consumer Protection Act and admitted no fault.

NAPW and PDN are two of the named Respondents in a Superior Court of New Jersey Proceeding, and they are being sued by Shore Digital LLC. The Petitioner in this matter, Shore Digital LLC is alleging that both NAPW and PDN are in breach of contract, and the matter involves the payment of the entire value of the contract plus council fees, interest, and costs owing to the Petitioner. The case is on-going, and discussions are taking place to assess the company's options to settle the matter without further litigation.

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 in June of 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. The potential financial impact on the Company is inherently uncertain at this point.

The Company is a party to a proceeding captioned Jacqueline M. Jefferson v. Noble Voice, No. 440-2018-06979 (EEOC), filed with the Equal Employment Opportunity Commission ("EEOC") on July 10, 2018 and alleging violations of Title VII and the Equal Pay Act of 1963, where an employee alleges she was terminated by the Company due to her age on May 25, 2018. Ms. Jefferson's termination was as a result of the sale of the Noble Voice business on May 25, 2018. The Company and Jacqueline Jefferson are in the process of mediation.

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

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 - MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been listed on the NASDAQ Capital Market under the symbol “IPDN” since March 5, 2013. Prior to that date, there was no public trading market for our common stock.

	High	Low
Year Ended December 31, 2018		
First Quarter	$5.24	$2.75
Second Quarter	$4.90	$2.47
Third Quarter	$4.46	$2.62
Fourth Quarter	$3.33	$0.73
Year Ended December 31, 2017		
First Quarter	$13.90	$8.41
Second Quarter	$11.23	$6.06
Third Quarter	$7.12	$3.74
Fourth Quarter	$6.63	$2.45

On April 12, 2019, the closing price of our common stock was $ 3.34 per share.

Holders

As of April 12, 2019, we had 23 holders of record of our common stock. Since certain of our shares are held by brokers and other institutions on behalf of stockholders, the foregoing number is not representative of the number of beneficial owners of our common stock.

Dividends

We have never declared or paid any cash dividends on our capital stock. We currently intend to use the net proceeds from any offerings of our securities and our future earnings, if any, to finance the further development and expansion of our business and do not intend or expect to pay cash dividends in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, outstanding indebtedness and plans for expansion and restrictions imposed by lenders, if any.

Recent Sales of Unregistered Securities

On January 29, 2018, the Company sold 380,295 shares of common stock at a price of $3.91 per Share for gross proceeds of $1,486,953. The per Share purchase price reflected the closing price of the Company's common stock on January 24, 2018. The purchaser is Mr. Shengqi Cai, an individual and a resident of the People's Republic of China.

On June 25, 2018, the Company sold 496,510 shares of common stock at a price of $2.89 per share for gross proceeds of $1,434,914. The purchaser is China EWI International Finance Group Co., Limited, a limited liability company based in the People's Republic of China.

From January 9, 2019 to April 2, 2019, the Company sold an aggregate of 232,515 shares of its common stock at a purchase price ranging from $1.146 to $3.85 per share, representing 120% of the closing price the trading day immediately prior to the date of subscription. As of the date of this annual report, the Company has received an aggregate gross proceeds of $479,931 under this private placement. All of the purchasers are citizens of the People's Republic of China.

The issuance of the above shares of common stock is exempt from registration due to the exemption found in Regulation S promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended.

ITEM 6 - SELECTED FINANCIAL DATA

Not applicable.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto in Item 8, "Financial Statements and Supplementary Data," in Part II of this Annual Report. This discussion contains forward-looking statements, which are based on our assumptions about the future of our business. Our actual results will likely differ materially from those contained in the forward-looking statements. Please read "Special Note Regarding Forward-Looking Statements" for additional information regarding forward-looking statements used in this Annual Report.

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 three 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, (ii) National Association of Professional Women (**"NAPW Network"**), a women-only professional networking organization, and (iii) China operations (**"China Operations"**), which focuses on providing tools, products and services in China which will assist women, students and business professionals in personal and professional development.

On May 25, 2018, the Company sold Noble Voice to a long-time customer of the Company and exited the business segment. The Company retained all receivables and payables prior to the May 25, 2018 closing date and as a result of this divestiture, ceased operating losses on that division immediately upon the sale. Management believes that education lead generation business is not important to the Company's long-term strategy and with the sale of the Noble

Voice division. The Company is now able to focus on executing its long term plan for its PDN jobs recruitment division and NAPW.

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; (iii) we help employers address their workforce diversity needs by connecting them with the right candidates; and (iv) we leverage our U.S. expertise and China connections to deliver these values to China, one of the world's fastest-growing markets for professional networking.

In January of 2017, the Company established PDN Hong Kong through its two wholly-owned subsidiaries there and in March of 2017 the Company established PDN China through its subsidiary there. We are currently executing our strategic plan to build in China entirely new networking, training and education businesses. We believe that coupling the Company's expertise in networking and careers with our Chinese executives' expertise in the China market will provide us with an opportunity for success with our overseas expansion. During the first two quarters of 2017, we held seven events as part of our education and training business line's "Shared Economy" summit series, attracting over 7,800 paid attendees. Additionally, during the second quarter of 2017, we held a selective marketing event to introduce IAW, the PDN China women's networking business.

In the third quarter of 2017, PDN China began to transact IAW memberships in China, ranging from RMB 20,000 to RMB 200,000 (Approximately $3,000 to $30,000 annual memberships). Additionally IAW China held its first IAW VIP China event at the Women's Forum Global Meeting, in Paris, France. Also, on December 2, 2017, PDN China held its largest education and training event of the year. The event, "The International Capital Leadership Summit", took place in Beijing, China. Amongst many notable speakers, Mr. Bruce Aust, Vice Chairman of the Nasdaq Exchange was featured at the event. In the fourth quarter of 2017, PDN China began to transact business club memberships in China, ranging from RMB 20,000 to RMB 100,000 (Approximately $3,000 to $15,000 annual memberships).

In 2018, our PDN Network, NAPW Network, and China Operations businesses represented 33.5%, 59.3%, and 7.2% of our revenues, respectively. As of December, 2018, we had approximately 10.7 million registered users in our PDN Network and approximately 954,000 registered users, or members, in the NAPW Network. We believe that the combination of our solutions allows us to approach recruiting and professional networking in a unique way and thus create enhanced value for our members and customers.

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.

	Year Ended December 31,	
	2018	2017
Percentage of revenue by product:		
Membership fees and related services	59.1%	58.3%
Education and training	7.2 %	23.5%
Recruitment services	30.4%	16.0%
Consumer advertising and consumer marketing solutions	3.1 %	1.6 %
Products sales and other	0.2 %	0.6 %

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 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. NAPW Membership subscriptions represented approximately 99.6% and 98.9% of revenue attributable to the NAPW Network business segment for the years ended December 31, 2018 and 2017, respectively.

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.

In the third quarter of 2017, PDN China began to transact IAW annual memberships in China, ranging from RMB 20,000 to RMB 200,000 (approximately $3,000 to $30,000). In the fourth quarter of 2017, PDN China began to transact annual business club memberships in China, ranging from RMB 20,000 to RMB 100,000 (approximately $3,000 to $15,000). For the year ended December 31, 2018, IAW memberships comprised approximately 27.1% of revenue attributable to China Operations.

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. For the years ended December 31, 2018 and 2017, recruitment advertising revenue constituted approximately 90.7% and 91.1%, respectively, of the revenue attributable to the PDN Network business segment.

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. Product sales represented approximately 0.4% and 1.1% of revenue attributable to the NAPW Network business segment for the years ended December 31, 2018 and 2017, respectively.

Education and Training. In March of 2017 we began our China Operations by creating a Shared Economy summit series designed to provide education and training to Chinese business people. Our initial event was a paid event which generated revenue through paid event admission fees. Education and training represented approximately 72.9% and 100% of the revenue attributable to China Operations for the years ended December 31, 2018 and 2017, respectively.

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. For the years ended December 31, 2018 and 2017, consumer advertising and marketing represented approximately 9.3% and 8.9%, respectively, of the revenue attributable to the PDN Network business segment.

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, and costs of producing education and training events and serving IAW members for our China business. Costs of producing wall plaques, hosting member conferences and local chapter meetings are also included in the cost of revenue for NAPW Network.

Key Metrics

We believe that one of the key metrics in evaluating and measuring our performance is the number of registered users. We define the number of registered users as (i) the number of individual job seekers who affirmatively visited one of PDN Network's properties, opted into an affinity group and provided us with demographic or contact information enabling us to match them with employers and/or jobs (PDN Network registered users); and (ii) the number of consumers who have viewed our marketing material, opted into membership in the NAPW Network, provided demographic information and engaged in an onboarding call with a membership coordinator (NAPW Network registered users). We believe that a higher number of registered users will result in increased sales of our products and services, as customers will have access to a larger pool of professional talent. However, a higher number of registered users will not immediately translate to increased revenue, as there is a lag between the time we acquire a registered user through our lead-generation process and the time we generate revenue from a registered user by selling them one of our paid products or services.

The following table sets forth the number of registered users as of the periods presented:

	Year Ended December 31,		Change	
	2018	2017	(Percent)	
	(in thousands)			
Registered users:				
PDN Network Registered Users (1)	10,695	10,266	4.0	%
NAPW Network Total Membership (2)	954	954	0.0	%

(1) The number of registered users may be higher than the number of actual users due to various factors. For more information, see "*Risk Factors page #13 —The reported number of our registered users is higher than the number of actual individual users, and a substantial majority of our visits are generated by a minority of our users*".

(2) Includes both Paid Members and Unpaid Members. There were 12,633, and 25,436 Paid Members as of December 31, 2018 and 2017, respectively.

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, the most directly comparable GAAP measure reported in our consolidated financial statements:

	Year Ended December 31, 2018	2017
	(in thousands)	
Loss from Continuing Operations	$(14,572)	$(21,577)
Stock-based compensation expense	800	900
Impairment charge	8,047	14,611
Depreciation and amortization	2,618	3,008
Litigation settlement	342	155
Interest Expense	5	12
Interest and other income	-	(8)
Income tax expense (benefit)	(1,564)	(1,687)
Adjusted EBITDA	$(4,324)	$(4,586)

<u>Results of Operations</u>

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.

	Year Ended December 31, 2018	2017	Change (Dollars)	Change (Percent)
	(in thousands)			
Revenues				
Membership fees and related services	$4,992	$9,372	$(4,380)	(46.7)%
Recruitment services	2,572	2,579	(7)	(0.3)%
Products sales and other	19	100	(81)	(81.0)%
Education and training	607	3,777	(3,170)	(83.9)%
Consumer advertising and marketing solutions	263	253	10	4.0%

Total revenues	$8,453	$16,081	$(7,628)	(47.4)%

Total revenues decreased $7,628,000, or 47.4%, from $16,081,000 for the year ended December 31, 2017 to $8,453,000 for the year ended December 31, 2018. The decrease is mainly the result of management's focus on reduction in sales and operations workforce as a means to cost savings and rebranding the business.

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.

	Year Ended December 31,		Change	Change
	2018	2017	(Dollars)	(Percent)
	(in thousands)			
NAPW Network	$4,786	$9,472	$(4,686)	(49.5)%
PDN Network	2,835	2,832	3	0.1%
China	832	3,777	(2,945)	(78.0)%
Total revenues	$8,453	$16,081	$(7,628)	(47.4)%

Membership fees and related services and products sales attributable to the NAPW Network of $4,786,000 for the year ended December 31, 2018 represent a reduction of $4,686,000 from the comparable period in 2017, or 49.5%. The decrease is primarily due to reductions of the NAPW sales staff and workforce as a result of rebranding our NAPW business. Additionally, several aspects of operations were relocated to our Chicago headquarters aimed to increase efficiency and reduce costs.

During the year ended December 31, 2018, our PDN Network generated $2,835,000 in revenue compared to $2,832,000 generated in the prior year period, an increase of $3,000 or 0.1%. The slight increase was a result of improvement in concerted efforts in sales growth, client retention, and customer satisfaction.

During the year ended December 31, 2018, our China Operations generated $832,000 in revenue compared to $3,777,000 generated in the prior year period, a decrease of $2,945,000, or 78.0%. The decrease is primarily due to reduction in revenues from business events. In 2017, our major event "The International Capital Leadership Summit" that was held on December 2, 2017 generated $2,875,000 of the revenue. In 2018, we generated a total of $607,000 in event revenue, all attributable to the "International Capital Forum" that was held at the Empark Grand Hotel in Beijing on December 1, 2018.

Costs and Expenses

The following tables set forth our costs and expenses for the periods presented (certain items may not foot due to rounding). The period-to-period comparison of financial results is not necessarily indicative of future results.

	Year Ended December 31, 2018	2017	Change (Dollars)	Change (Percent)
	(in thousands)			
Costs and expenses:				
Cost of revenues	$1,613	$2,693	$(1,080)	(40.1)%
Sales and marketing	3,970	7,269	(3,299)	(45.4)%
General and administrative	8,017	11,612	(3,595)	(31.0)%
Litigation settlements, net	342	155	187	120.6%
Impairment charge	8,047	14,611	(6,594)	(44.9)%
Depreciation and amortization	2,618	3,008	(390)	(13.0)%
Total costs and expenses	$24,607	$39,348	$(14,741)	(37.5)%

Total costs and expenses decreased in the year ended December 31, 2018 to $24,607,000 compared to $39,348,000 for the year ended December 31, 2017. This decrease of 37.5% is primarily the result of decrease in impairment charge of $6,594,000 or 44.9%, combined with $3,595,000 or 31.0% decrease in general and administrative expenses, and $3,299,000 or 45.4% decrease in sales and marketing expenses.

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.

	Year Ended December 31, 2018	Year Ended December 31, 2017	Change (Dollars)	Change (Percent)
	(in thousands)			
NAPW Network	$15,562	$27,900	$(12,338)	(44.2)%
PDN Network	2,986	3,097	(111)	(3.6)%
China	2,447	2,860	(413)	(14.4)%
Corporate Overhead	3,612	5,491	(1,879)	(34.2)%
Total costs and expenses	$24,607	$39,348	$(14,741)	(37.5)%

Costs and expenses decreased by $12,338,000, or 44.2%, in the NAPW Network segment primarily as a result of a $6,594,000 or 44.9% decrease in impairment charge, $3,111,000 or 59.1% decrease in sales and marketing expenses, and $2,288,000 or 48.9% decrease in general & administrative expenses as a result of the management focus on cost reduction, including the reductions in sales force, and reduction in lead generation expenses.

Costs and expenses decreased by $111,000, or 3.6%, in the PDN Network segment primarily due to $82,000, or 5.2% decrease in sales and marketing expenses, and $34,000, or 6.1% reduction in general and administrative expenses. While revenues ticked up slightly, the overall expenses decreased as a result of management's efforts to improve efficiency.

Costs and expenses decreased by $413,000, or 16.7%, in our China segment primarily due to $920,000, or 60.0% decrease in cost of revenues as a result of lower revenues, and $225,000, or 76.0% decrease in marketing expenses, partially offset by $606,000, or 67.7% increase in general and administrative expenses primarily due to $409,000 increase in personnel cost.

Costs and expenses decreased by $1,879,000, or 34.2% in the Corporate Overhead segment as a result of the management's continuous efforts to reduce corporate level expenses. The large reduction in expenses was primarily due to $943,000, or 72.0% decrease in legal expenses, and $446,000, or 90.4% decrease in compensation to our independent board directors.

Operating Expenses

Cost of revenues: Cost of revenues during the year ended December 31, 2018 was $1,613,000, a decrease of $1,080,000, or 40.1%, from $2,693,000, for the year ended December 31, 2017, a result of lower revenues by $7,628,000, or 47.4%. The decrease in cost of revenue is mainly attributable to a decrease of $920,000 related to our China Operations.

Sales and marketing expense: Sales and marketing expense for the year ended December 31, 2018 was $3,970,000, a decrease of $3,299,000, or 45.4%, from $7,269,000 for the year ended December 31, 2017. The decrease is mainly attributable to a decrease of $3,111,000, or 59.1% at our NAPW segment, due to a cost reduction plan we implemented in the second half on 2017, and continued in 2018 that resulted in $2,070,000, or 46% year-over-year reduction in the personnel cost, $1,045,000 reduction in digital advertising expenses, $579,000 reduction in sales commissions, and overall better marketing cost management.

General and administrative expense: General and administrative expenses decreased by $3,595,000, or 31.0%, to $8,017,000 for the year ended December 31, 2018. The decrease was a result of a decrease of $2,288,000, or 48.9% in our NAPW segment mainly due to $998,000 decrease in personnel cost, and $536,000 decrease in rent expense, and a decrease of $1,879,000, or 34.2% in our Corporate Overhead, primarily due to $943,000 decrease in legal expenses, and $446,000 decrease in compensation to our independent board directors.

Litigation settlements: Litigation settlement for year ended December 31, 2018 represents primarily potential settlement accrued for various cases. Litigation settlement for year ended December 31, 2017 represents primarily $146,000 in expenses that were accrued for the potential back-pay related to the "NLRB" legal proceeding (please refer to "Legal Proceedings" for details in the 10-Q for the period ended June 30, 2018). Since then, the Company settled its "NLRB" litigation and paid full settlement amount of $139,000 as of September 30, 2018.

Impairment charge: As a result of the recurring operating losses incurred in NAPW since its acquisition in September 2014, the Company undertook a review of the carrying amount of its goodwill as of June 30, 2017, December 31, 2017, and as of September 30, 2018. Accordingly, the Company recorded a goodwill impairment charge of $14,611,000 for the year ended December 31, 2017, and $5,251,000 for the year ended December 31, 2018. Additionally, the Company undertook a review of the carrying amount of its long-lived intangible assets as of December 31, 2018, and recorded impairment charge of $2,796,000.

Depreciation and amortization expense: Depreciation and amortization expense for the year ended December 31, 2018 was $2,618,000, compared to $3,008,000 for the year ended December 31, 2017, a decrease of $390,000, or 13.0%. The decrease for the three and nine months ended September 30, 2018 was mainly attributable to a reduction in amortization expenses resulting from the amortization of the intangible assets as listed in Note 5 and Note 6 to Consolidated Financial Statements of this annual report.

Other Income (Expenses)

	Year Ended December 31,		Change	Change
	2018	2017	(Dollars)	(Percent)
	(in thousands)			
Total	$ 18	$ 4	$ 14	350.0 %

Included in other income for the year ended December 31, 2018 is primarily from local government subsidy for FY2017 income tax that was granted to our China Operations. Included in other income for the year ended December 31, 2017 is primarily interest earned on investments.

Income Tax (Benefit) Expense

	Year Ended December 31, 2018	2017	Change (Dollars)	Change (Percent)
	(in thousands)			
Total	$(1,564)	$(1,687)	$ 123	(7.3)%

The effective income tax rate for the year ended December 31, 2018 was 9.69%, resulting in an income tax benefit of $1,564,000. The effective income tax rate for the year ended December 31, 2017 was 7.25%, resulting in an income tax benefit of $1,687,000. The majority of the difference in the effective income tax rate was due to a goodwill impairment charge of $14,611,000 that was recognized during the year ended December 31, 2017. As a result of the Tax Act, the U.S. statutory rate was lowered from 35% to 21% effective January 1, 2018. As a result of this reduction, we re-measured our ending net deferred tax liabilities at December 31, 2017 and recognized in a benefit of $788,000 during 2017.

Net loss

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

	Year Ended December 31,		Change	Change
	2018	2017	(Dollars)	(Percent)
	(in thousands)			
NAPW Network	$(9,771)	$(17,035)	$7,264	(42.6)%
PDN Network	(136)	(226)	90	(39.8)%
China	(1,405)	796	(2,201)	(276.5)%
Corporate Overhead	(3,260)	(5,112)	1,852	(36.2)%
Consolidated Net Loss from continuing operations	$(14,572)	$(21,577)	$7,005	(32.5)%

Consolidated Net Loss from continuing operations. As the result of the factors discussed above, during the year ended December 31, 2018, we incurred $14,572,000 of net losses from continuing operations, a decrease of 32.5% from net losses for the year ended December 31, 2017. The changes were primarily attributable to a $6,564,000 decrease in impairment charge taken against NAPW Network, and reduction of revenue by $7,631,000 year over year at NAPW Network and China Operations. Reduction of year over year net loss from continuing operations was also caused by continuing efforts to reduce sales and marketing and general administrative expenses.

NAPW Network Net Loss. During the year ended December 31, 2018, we incurred a net loss of $9,771,000, compared to $17,035,000 for the prior year period. The decrease in net loss was primarily attributable to a $6,564,000 decrease in impairment charge, $2,070,000 decrease in the personnel cost, $1,045,000 reduction in digital advertising expenses, and $579,000 reduction in sales commissions. It was partially offset by reduction in revenue by $4,686,000.

PDN Network Net Loss. During the year ended December 31, 2018, we incurred $136,000 of net losses attributable to the PDN Network, a decrease of $90,000, compared to the net losses incurred for the year ended December 31, 2017. The decrease in net loss is primarily a result of $178,000 decrease in overall personnel cost.

China Operations Net Loss. During the year ended December 31, 2018, we incurred $1,405,000 of net losses attributable to our China Operations, an increase of $2,201,000, compared to the net profit of $796,000 generated for the year ended December 31, 2017. The increase in net loss is primarily a result of $3,170,000 reduction in revenues year over year, while the general and administrative expenses grew during that period by $606,000 primarily due to $409,000 increase in personnel cost.

Corporate Overhead. During the year ended December 31, 2018, we incurred $3,260,000 of net losses attributable to the Corporate Overhead segment, a decrease of $1,852,000, compared to the net losses incurred for the year ended December 31, 2017. The decrease in net loss is primarily a result of $943,000 decrease in legal expenses, $446,000 decrease in compensation to our independent board directors, and $173,000 decrease in personnel cost.

Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of December 31, 2018 and 2017, respectively, and is intended to supplement the more detailed discussion that follows:

	December 31,	
	2018	2017
	(in thousands)	
Cash and cash equivalents	$1,442	$2,926
Working capital (deficiency)	$(3,384)	$(1,140)

Our principal sources of liquidity are our cash and cash equivalents, including the net proceeds from the issuances of common stock to CFL and other investors. As of December 31, 2018 and 2017, we had working capital deficiency of approximately $3,384,000 and $1,140,000, respectively. We had an accumulated deficit of approximately $84,827,000 at December 31, 2018. During the year ended December 31, 2018, we generated a net loss from continuing operations of approximately $14,572,000 (including $8,047,000 impairment charge recorded during the year of 2018), and used cash in continuing operations of approximately $5,057,000. These conditions raise substantial doubt about its 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 consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company is closely monitoring operating costs and capital requirements. Management of the Company also made efforts in 2018 and 2017 to contain and reduce cost, including terminating non-performing employees and eliminating certain positions, replacing and negotiating with certain vendors, implementing a new approval process over travel and other expenses, and significantly reducing the cash compensation for independent board directors. We also sold our Noble Voice business on May 25, 2018 to reduce operating losses and cash burns. If we are still not successful in sufficiently reducing our costs, we may then need to dispose of our other assets or discontinue business lines.

On November 16, 2018, the Company entered into a revolving credit facility agreement with GNet Tech Holdings, a related party through one of the Company’s shareholders, Cosmic Forward Limited (“CFL”), that matures on May 31, 2020, under which we can draw up to GBP £1,500,000 (approximately $2,000,000). Interest is payable on any outstanding principal balance at a rate equal to the LIBOR rate plus 4%. Amounts drawn under this facility are payable at the end of one, three, or six months periods at the election of the Company. At December 31, 2018, there were no outstanding amounts drawn under this facility. At April 12, 2019, approximately $1,707,000 was available for us to draw.

From January 9, 2019 to April 2, 2019, the Company sold an aggregate of 232,515 shares of its common stock at a purchase price ranging from $1.146 to $3.85 per share, representing 120% of the closing price the trading day immediately prior to the date of subscription. As of the date of this annual report, the Company has received an aggregate gross proceeds of $479,931 under this private placement. All of the purchasers are citizens of the People's Republic of China.

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 financial statements. In order to fund its operations, the Company will need to either raise capital by issuance of stock, or utilize a revolving credit facility with GNet; 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 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. In addition, due to China's foreign currency control, the Company cannot move money between China and the USA freely. The People's Bank of China (PBOC) and State Administration of Foreign Exchange (SAFE) regulate the flow of foreign exchange in and out of the country strictly. We need to get approval from Chinese government to move money from China to the U.S. which might take extra time.

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 and short term investments consist primarily of cash on deposit with banks and investments in money market funds, corporate and municipal debt and U.S. government and U.S. government agency securities.

	Year Ended December 31,	
	2018	2017
	(in thousands)	
Cash provided by (used in) continuing operations	$	$
Operating activities	(5,057)	(6,435)
Investing activities	(128)	(341)
Financing activities	3,422	3,586
Effect of exchange rate fluctuations on cash and cash equivalents	$(42)	$34
Cash provided by (used in) discontinued operations:		
Operating activities	121	230
Investing activities	200	(3)
Net decrease in cash and cash equivalents	(1,484)	(2,929)

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 in continuing operations for the year ended December 31, 2018 was $5,057,000. We had a net loss of $14,572,000 during the year ended December 31, 2018, and a deferred tax benefit of $1,394,000, which was partially offset by non-cash impairment charge of $8,047,000, depreciation and amortization of $2,618,000, stock-based compensation expense of $800,000, and write off of security deposit of $171,000. Changes in operating assets and liabilities used $833,000 of cash during the year ended December 31, 2018, consisting primarily of decreases in deferred revenue, and accrued expenses, partially offset by increases in accounts payable.

Net cash used in operating activities in continuing operations for the year ended December 31, 2017 was $6,435,000. We had a net loss of $21,577,000 during the year ended December 31, 2017, a deferred tax benefit of $1,929,000, which was partially offset by non-cash goodwill impairment charge of $14,611,000, depreciation and amortization of $3,008,000, and stock-based compensation expense of $900,000. Changes in operating assets and liabilities used $1,486,000 of cash during the year ended December 31, 2017, consisting primarily of decreases in deferred revenue, accounts payable, partially offset by increases in prepayments, incremental direct costs and decreases in accounts receivable.

Net Cash Used in Investing Activities

Net cash used in investing activities in continuing operations during the year ended December 31, 2018 was $128,000, consisting of $120,000 in costs incurred to develop technology, and $8,000 in purchases of property and equipment.

Net cash used in investing activities in continuing operations during the year ended December 31, 2017 was $341,000, consisting of $182,000 in costs incurred to develop technology, $154,000 in purchases of property and equipment and $5,000 of security deposits.

Net Cash Provided by Financing Activities

Net cash provided by financing activities in continuing operations during the year ended December 31, 2018 was $3,422,000, consisting of $1,487,000 in gross proceeds from the January 29, 2018 issuance and sale of 380,295 shares of common stock at a price of $3.91 per share to Mr. Shengqi Cai, an individual and a resident of the People's Republic of China, $1,435,000 in gross proceeds from the June 25, 2018 sale of 496,510 shares of common stock at a price of $2.89 per share to China EWI International Finance Group Co., Limited, a limited liability company based in the People's Republic of China, and $500,000 in gross proceeds from November 5, 2018 issuance of a convertible promissory note by GNet Tech, a related party through one of the Company's shareholders.

Net cash provided by financing activities in continuing operations during the year ended December 31, 2017 was $3,586,000, consisting of $3,064,000 of proceeds from the sale of common stock to CFL and IAW members, $666,000 proceeds due to the reduction in the merchant reserve for NAPW Network, partially offset by the payment of $144,000 of costs related to the CFL Transaction.

Net Cash (Used in) Provided by Discontinued Operations

On May 25, 2018 we sold our Noble Voice operations.

Net cash provided by operating activities in discontinued operations for the year ended December 31, 2018 was $121,000. Net cash provided by investing activities for the same period was $200,000, consisting of $200,000 in gross proceeds from the sale of Noble Voice operations.

Net cash provided by operating activities in discontinued operations for the year ended December 31, 2017 was $230,000. Net cash used in investing activities for the same period was $3,000, consisting of $3,000 in costs incurred to develop technology.

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

On April 5, 2012, the Jumpstart Our Business Startups Act (the "**JOBS Act**") was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company," we may delay adoption of new or revised accounting standards applicable to public companies until the earlier of the date that (i) we are no longer an emerging growth company or (ii) we affirmatively and irrevocably opt out of the extended transition period for complying with such new or revised accounting standards. We have elected to take advantage of the benefits of this extended transition period. Our consolidated financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Upon issuance of new or revised accounting standards that apply to our consolidated financial statements, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting guidelines.

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the

United States, or U.S. GAAP. The preparation of these 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 consolidated financial statements.

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 consolidated financial statements included at the end of this Annual Report, 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 consolidated 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 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 consolidated financial statements.

Special Note Regarding Forward-Looking Statements

This annual report on Form 10-K, including Part I, Item 1. "*Business*" and Part II, Item 7. "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 annual 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;
- our ability to execute our China growth plan
- any future litigation regarding our business, including intellectual property claims;
- general and economic business conditions; and
- legal and regulatory developments.

Additional factors, risks and uncertainties that may affect our results, are discussed in Item 1A. "*Risk Factors*" of this Annual Report beginning on page 13, and in our subsequent filings with the SEC. 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 annual 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 annual report.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's financial statements required by this item are included on pages F-1 through F-27 of this Annual Report. See Item 15(a)(l) for a listing of financial statements provided.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness, as of the end of the period covered by this Annual Report, of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). The purpose of this evaluation was to determine whether as of the evaluation date our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in our filings with the SEC under the Exchange Act: (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation and because of the material weakness described below, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of the end of the period covered in this Annual Report on Form 10-K.

Management's Report on Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal executive officer and principal financial officer, respectively), is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. We have designed our internal controls to provide reasonable assurance that our financial statements are prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP), and include those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorization of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management conducted an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2018. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in its 2013 *Internal Control — Integrated Framework*.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our internal controls over financial reporting were not effective as of the end of the period covered in this Annual Report on Form 10-K. The management undertook several remediation actions, including centralization of the US accounting and HR operations and improved segregation of duties within our accounting and financial reporting functions. We also improved GAAP training of internal staff and engaged an outside consultant to assist the Company on complex GAAP matters. Although these measures greatly helped improve our internal controls, they did not fully remediate deficiencies in controls. Additional material weakness identified as of December 31, 2017 in our China operations that was related to control design with contract administration was fully addressed and remediated in 2018. Accordingly, our management has concluded that the financial statements included in this report fairly present in all material respects our financial position and results of operations.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Material Weakness in Internal Control Over Financial Reporting

A material weakness is a control deficiency or a combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our management had concluded that, as of December 31, 2018, 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.

Debt agreements are not fully reviewed for appropriate classification of outstanding debt. Specifically, the revolving credit facility agreement repayment terms were not effectually considered by management.

Plan for Remediation of Material Weakness

During 2018, we continued our initiatives to improve and remediate material weaknesses related to our internal control over financial reporting for the period ended December 31, 2018. Specifically:

We expanded our corporate accounting staff and added qualified personnel with knowledge of U.S. GAAP,

We engaged an outside consultant to assist the Company on complex GAAP issues

We improved financial reporting process that included monthly and quarterly closing check-list and monthly review of the financial reports by the Company's Finance Dept. leadership.

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 weakness. 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 weakness has been remediated.

Limitations on the Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2018 we continued to undertake efforts to enhance the overall internal control structure. We implemented additional review and approval policies and procedures within our operations. There have been no other changes in our internal control over financial reporting that occurred during our fiscal quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B - OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Board of Directors

Set forth below is the name of each member of our current Board, as well as each such person's age, his or her current principal occupation (which has continued for at least the past five years unless otherwise indicated) together with the name and principal business of the company that employs such person, if any, the period during which such person has served as a director of the Company, all positions and offices that such person holds with the Company and such person's directorships over the past five years in other companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or subject to the requirements of Section 15(d) of the Exchange Act or companies registered as an investment company under the Investment Company Act of 1940 and the specific experience, qualifications, attributes or skills that led to the conclusion that such person should serve as a director of the Company. There are no family relationships between our executive officers and directors.

Name	**Age**	**Position**
Maoji (Michael) Wang	47	Chairman of the Board and Chief Executive Officer
Star Jones	57	Director and President
Michael Belsky	60	Director (1) (2) (3)
Lida Fang	61	Director (1) (3)
Haibin Gong	63	Director (2)
Courtney C. Shea	58	Director (1)
Hao (Howard) Zhang	51	Director (2) (3)

(1) Member of our audit committee.

(2) Member of our compensation committee.

(3) Member of our nominating and corporate governance committee.

Maoji (Michael) Wang has been our Chief Executive Officer and a member of the Board since November 2016 and was appointed as the chairman of the Board in March 2019. He is also an investor in Cosmic Forward Limited ("**CFL**"), the Company's majority stockholder and is currently the managing partner of Beijing Daqian Law Firm, and has held that position since November 2005. Mr. Wang has also served as a vice president at GNet Group Plc, an e-commerce company based in China, since April 2014, and as Chief Executive Officer of Tibet Weibai Investment Fund Management Co., Ltd. since March 2016, Guangzhou Gaixin Network Technology Development Co., Ltd. since May 2016 and Guangzhou Yougaojiu Marketing Management Co., Ltd. since June 2016. He has also worked as a supervisor at Guangzhou Wu Wei E-commerce Services Co., Ltd. since January 2015 and Yunnan Linkenuodi Education Information Consulting Co., Ltd. since November 2012. Mr. Wang was originally appointed to our Board under the terms of a stockholders' agreement entered into between the Company and CFL, our majority stockholder, which agreement grants to CFL the right to designate one director nominee for every 9.9% of the total voting power of our common stock that CFL beneficially owns, up to a maximum of six directors.

Star Jones has been our President and a member of the Board since September 2014. She joined NAPW's predecessor company in September 2011 as its National Spokesperson and became its Chief Development Officer in May 2013 and President in June 2014. Ms. Jones became the "face" of NAPW, tasked with conveying the message, brand and image of NAPW worldwide. As President, she has responsibility for the overall development, expansion and implementation of NAPW's development and programming strategy. For the last 25 years, Ms. Jones has been a licensed attorney in the State of New York and was formerly a New York homicide prosecutor. Ms. Jones has worked in television for more than 20 years as a journalist, talk show host, commentator, NBC News Legal Correspondent and Veteran Legal Analyst and co-host of ABC's *The View* for nine years. She is also regularly seen on NBC's *Today Show* and CNN's *Piers Morgan Live* as a veteran law and news analyst. Ms. Jones is also an accomplished author who has written two best-selling non-fiction books, *You Have to Stand for Something, or You'll Fall for Anything* and *Shine...a Physical, Emotional & Spiritual Journey to Finding Love*. Her third book, *Satan's Sisters*, a fictional account of the behind-the-scenes workings of a daytime talk show, was published in the spring of 2011. In the corporate world, Ms. Jones has been a featured personality for numerous consumer brands including Payless, Saks Fifth Avenue and Kohls, and has appeared on the cover of and/or been featured in a number of major newspapers and magazines in the country on topics ranging from news to lifestyle. Her newest venture, Status, by Star Jones, a collection of women's apparel for the professional woman, was launched by QVC in the fall of 2013. Since 2011, she has actively participated in the American Heart Association's National Go Red efforts, has lobbied Congress on behalf of that association and was asked by the Presidential Inaugural Committee to speak at the National Day of Service on heart health during President Obama's 2013 Inauguration. As the National Volunteer for the American Heart Association, Ms. Jones led NAPW in its efforts to help raise awareness of heart disease during "Heart Month," helping to raise millions of dollars for much needed research and community outreach.

Hao (Howard) Zhang has been a member of the Board since November 2016. Mr. Zhang is a private investor based in China. Mr. Zhang has served as a director of Wealth Power Global Trading Limited since June 2015. Mr. Zhang was originally appointed to our Board under the terms of a stockholders' agreement entered into between the Company and CFL, our majority stockholder, which agreement grants to CFL the right to designate one director nominee for every 9.9% of the total voting power of our common stock that CFL beneficially owns, up to a maximum of six directors.

Michael D. Belsky has been a member of the board since January 2018. Mr. Belsky is the Executive Director of the Center for Municipal Finance at Harris and teaches a course on the fundamentals of municipal bonds as part of the Municipal Finance Certificate Program. Mr. Belsky has over 30 years of experience in the Municipal Bond Industry. Mr. Belsky spent most of his career as Group Managing Director of the Public Finance Group at Fitch Ratings. He worked at the rating agency from 1993 to 2008 and was named top rating agency executive in public finance by institutional investors three years in a row (Smith's Research and Ratings Review Municipal All Star Team, 2005–07). Mr. Belsky began his career in 1984 as a municipal bond analyst at the Northern Trust Company. He subsequently worked as a municipal bond underwriter and as a public finance investment banker. In 1989 he established and began managing a public finance department for Mesirow Financial, a regional investment bank in Chicago. Mr. Belsky also served two terms as a member of the City Council in Highland Park, Illinois (1995–2003), and two terms as mayor (2003–11). Under his leadership the city received national recognition in the areas of environmental sustainability, budgeting, financial reporting, affordable housing and local health initiatives. The city maintained a triple-A rating by Moody's Investors Service throughout his tenure. From 2008 to 2011 Mr. Belsky was a member of the Governmental Accounting Standards Board, a national body that sets accounting and financial reporting standards for state and local governments. Mr. Belsky is a recognized expert in municipal finance and has spoken at numerous conferences and seminars, including at Bloomberg and the Greenwich Round Table. He was recently asked by the SEC to testify as an expert in hearings on secondary market disclosure in the municipal bond market. He has lectured on public finance at Northwestern University, the LBJ School at the University of Texas, the School of Public and Environmental Affairs at Indiana University, the Graduate Program in City Management at Northern Illinois University, and the University of Illinois. Mr. Belsky received a BA in urban studies from Lake Forest College and an MA in public policy from the University of Chicago.

Haibin Gong has extensive experience in the fashion industry in China and was one of the earliest Chinese international male models. Since April 2017, Mr. Gong has been serving as the Legal Representative of Jiangshan Culture and Tourism Development Co., Ltd. Since 2010, Mr. Gong has been serving as the Secretary General and Chief Negotiator of Asian Professional Modeling Committee. In addition, since 2010, Mr. Gong has been serving as President and Secretary General at "MRS GLOBE", a beauty contest sponsored by the US charity WIN Fund for married women globally. MRS GLOBE has been held in various countries around the world since 1996, having global influence and receiving support from many celebrity politicians. Mr. Gong is very influential in the fashion and women circles in China. He also actively promotes interactions among various women's associations and seminars, which greatly promotes the development of women's career.

Lida Fang has extensive experience and resources in the media industry and has been actively promoting the career development of Chinese women. From March 2001, Ms. Fang has been serving as the editor in chief of magazine *Illustrated Newspaper of Macao, Hong Kong and Taiwan*. From 2001 to 2017, Ms. Fang served as a member of the committee of Beijing Liaison Committee of China Democratic National Construction Association. Since 2008, Ms. Fang has been working as the vice academic dean of Beijing Charity Academy. Ms. Fang received her MBA from Beihang University in 2004 and her bachelor degree in Computer Science from HeFei University of Technology in 1985.

Courtney C. Shea joined our Board on March 22, 2019. She has over 30 years of professional experience in municipal advisory and investment banking. Ms. Shea is a managing member of Columbia Capital Management, LLC, which she joined in 2013. She served as the head of Chicago office and senior vice president at Acacia Financial Group, Inc. from 2009 to 2013. She was also the head of Chicago office and managing director of Siebert Branford Shank & Co, LLC from 2006 to 2008. She served as the national department manager at LaSalle Financial Services from 2001 to 2006. Ms. Shea has been a member of the Board of Center for Municipal Finance at Harris School of Public Policy, University of Chicago since 2016 and a member of the National Association of Bond Lawyers since 2010. She chaired the Illinois State Securities Advisory Committee from 1995 to 1998 and was a member there from 1991 to 1995. She was also a member of the State of Illinois Banking Board from 2001 to 2002. In addition, Ms. Shea established the National Women in Public Finance as a co-founder in 1996. Ms. Shea received her MBA degree from the University of Chicago in 1985, her Juris Doctor degree from Loyola University Law School in 1983 and her bachelor degree in Economics from University of Notre Dame in 1980.

Executive Officers

The following table provides the name, age and position of each of our executive officers. There are no family relationships between or among our executive officers and directors.

Name	Age	Position

Maoji (Michael) Wang	47	Chairman of the Board and Chief Executive Officer
Star Jones	57	Director and President
Xin (Adam) He	46	Chief Financial Officer and Secretary

Maoji (Michael) Wang's biographical information is included under the heading "Item 10. Directors, Executive Officers, and Corporate Governance – Board of Directors."

Star Jones' biographical information is included under the heading "Item 10. Directors, Executive Officers, and Corporate Governance – Board of Directors."

Xin (Adam) He became our Chief Financial Officer effective March 11, 2019. He has been a member of the Board since January 2018 and resigned from the Board on March 11, 2019. Mr. He has served as Chief Financial Officer of Wanda America Investment Holding Co. since May 2012, and majorly managed two projects - a 99-story landmark building development in downtown Chicago since February 2015, and NYSE traded AMC Entertainment Holdings, Inc. from August 2012 to February 2015, principally involved in the theatrical exhibition business by owning and operating 660 theatres primarily located in the United States. He also served as an independent board director at iFresh Inc. and Energy Focus Inc., both listed on Nasdaq. From December 2010 to May 2012, he served as Financial Controller of NYSE listed Xinyuan Real Estate Co., a top developer of large scale, high quality residential real estate projects. Previously, Mr. He served as an auditor at Ernst & Young, LLP in New York, and held various roles at Chinatex Corporation and an architecture company. He is a member of the Financial Executives International and vice chair of the China General Chamber of Commerce Chicago. Mr. He obtained a Master of Science in Taxation from Central University of Finance and Economics in Beijing, and a Master of Science in Accounting from Seton Hall University in New Jersey. He is a Certified Public Accountant, both in China and in US. Mr. He was appointed to our Board under the terms of the stockholders' agreement entered into between the Company and CFL.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater-than-ten percent stockholders are required by SEC regulations to furnish us with all Section 16(a) forms they file. Based solely on our review of the copies of the forms received by us and written representations from certain reporting persons that they have complied with the relevant filing requirements, we believe that, during the year ended December 31, 2018, all of our executive officers, directors and greater-than-ten percent stockholders complied with all Section 16(a) filing requirements, except that, due to administrative error, the following forms were filed late:

- Michael Belsky filed a Form 3 on April 24, 2018 after becoming subject to Section 16(a) reporting requirements on January 22, 2018;
- Xin (Adam) He filed a Form 3 on April 27, 2018 after becoming subject to Section 16(a) reporting requirements on January 22, 2018;
- Xin (Adam) He filed a Form 4 on April 27, 2018 to report transactions that occurred on April 19, 2018.
- Jingbo Song filed a Form 4 on April 24, 2018 to report transactions that occurred on April 19, 2018.
- Maoji Wang filed a Form 4 on April 24, 2018 to report transactions that occurred on April 19, 2018.
- Maoji Wang filed a Form 4 on May 30, 2018 to report transactions that occurred on May 25, 2018.
- James Kirsch, our former Co-Executive Chairman, filed a Form 4 on April 24, 2018 to report transactions that occurred on April 19, 2018.

Hao Zhang filed a Form 4 on April 24, 2018 to report transactions that occurred on June 26, 2017.
Michael Belsky filed a Form 4 on April 27, 2018 to report transactions that occurred on April 19, 2018.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. The code of business conduct and ethics is available on our corporate website at www.prodivnet.com. Any amendment to, or waiver from, a provision of such code of ethics will be posted on our website. Information on the Company's website is not incorporated by reference herein.

Committees of the Board

Audit Committee. The Audit Committee was established for the purpose of overseeing the Company's accounting and financial reporting processes and audits of the Company's financial statements. The Audit Committee's primary functions are:

- to assist the Board with the oversight of the Company's financial reporting process, accounting functions and internal controls; and

- the appointment, compensation, retention and oversight of the work of any registered public auditing firm employed by the Company for the purpose of preparing or issuing an audit report or related work.

The Audit Committee currently consists of Michael Belsky (Audit Committee Chair), Lida Fang and Courtney C. Shea, each of whom are independent under the rules of the NASDAQ Stock Exchange. The Audit Committee meets periodically with the Company's independent registered public accounting firm, both with and without management present. The Board has determined that Ms. Shea is an "audit committee financial expert" within the meaning of Item 407 of Regulation S-K under the Exchange Act . A copy of the Audit Committee charter is posted and available on the Corporate Governance link of the Investor Relations section of the Company's website, www.prodivnet.com. Information on the Company's website is not incorporated by reference herein.

Compensation Committee. The Compensation Committee operates under a charter approved by the Board. The Compensation Committee's primary functions are:

- annually reviewing and approving corporate goals and objectives relevant to Chief Executive Officer compensation, evaluating the Chief Executive Officer's performance in light of those goals and objectives, and recommending to the Board the Chief Executive Officer's overall compensation levels based on this evaluation;

- annually reviewing and approving the annual base salaries and annual incentive opportunities of the Chief Executive Officer and the other executive officers;

- reviewing and approving the following as they affect the Chief Executive Officer and the other executive officers: (a) all other incentive awards and opportunities, including both cash-based and equity-based awards and opportunities; (b) any employment agreements and severance arrangements; and (c) any change-in-control agreements and change-in-control provisions affecting any elements of compensation and benefits; and

- monitoring and evaluating matters relating to the compensation and benefits structure of the Company as the Compensation Committee deems appropriate, including: (a) providing guidance to senior management on significant issues affecting compensation philosophy or policy and (b) evaluating whether the risks arising from the Company's compensation policies and practices for its employees would be reasonably likely to have a material adverse effect on the Company.

The Compensation Committee currently consists of Michael D. Belsky (Compensation Committee Chair), Hao (Howard) Zhang and Haibin Gong. The Compensation Committee also has authority to delegate its responsibilities to a subcommittee. The Company and the Compensation Committee may, from time to time, directly retain the services of consultants or other experts to assist the Company or the Compensation Committee, as the case may be, in connection with executive compensation matters. The Compensation Committee does not believe the risks from the Company's compensation policies and practices for its employees would be reasonably likely to have a material adverse effect on the Company.

A copy of the Compensation Committee charter is posted and available on the Corporate Governance link of the Investor Relations section of the Company's website, www.prodivnet.com. Information on the Company's website is not incorporated by reference herein.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee operates under a charter approved by the Board. The Nominating and Corporate Governance Committee's primary functions are:

leading the search for individuals qualified to serve as members of the Board and conducting the appropriate inquiries with respect to such persons;

evaluating the size and composition of the Board and its committees and recommending any changes to the Board;

reviewing the qualifications of, and making recommendations regarding, director nominations submitted to the Company by shareholders;

reviewing the Board's committee structure and recommending to the Board for its approval directors to serve as members of each committee; and

reviewing and recommending committee slates annually and recommending additional committee members to fill vacancies as needed.

The Nominating and Corporate Governance Committee currently consists of Hao (Howard) Zhang (Committee Chair), Michael D. Belsky and.Haibin Gong A copy of the charter of the Nominating and Corporate Governance Committee is posted and available on the Corporate Governance link of the Investor Relations section of the Company's website, www.prodivnet.com. Information on the Company's website is not incorporated by reference herein.

ITEM 11 - EXECUTIVE COMPENSATION

In this section, we describe our compensation programs and policies and the material elements of compensation for the year ended December 31, 2018 for our Chief Executive Officer, and our two most highly compensated executive officers, other than our Chief Executive Officer, whose total compensation was in excess of $100,000. Other than as disclosed below, we did not have any other employee whose compensation was such that executive compensation disclosure would be required but for the fact that they were not executive officers as of the end of the last fiscal year. We refer to all individuals whose executive compensation is disclosed herein as our "**named executive officers**."

All share and share-based numbers in the below tables and footnotes thereto reflect the Company's one-for-eight reverse stock split effected on September 27, 2016.

Summary Compensation Table

The following table provides information regarding the compensation earned during the years ended December 31, 2018 and December 31, 2017 by the persons who served as our Chief Executive Officer and our two most highly compensated executive officers, other than our Chief Executive Officer, whose total compensation was in excess of $100,000.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Maoji (Michael) Wang,	2018	$320,000	$ —	$151,200(2)	$ —	$ 471,200
Chief Executive Officer(1)	2017	$320,000	$ —	$928,200(3)	$ —	$1,248,200
James Kirsch, (4)	2018	$146,316	$ —	$162,000(5)	$ —	$ 308,316
Co-executive Chairman and Former Chief Executive Officer	2017	$337,261	$ —	—	$ —	$337,261
Jingbo Song,	2018	$ 325,000	$ —	$162,000(6)	$ —	$487,000
Co-executive Chairman (7)	2017	$315,205	$ —	$—	$ —	$315,205

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(1) Mr. Wang was appointed as our Chief Executive Officer on December 22, 2016.

(2) Represents the grant date fair value of the stock options awarded to Mr. Wang on April 19, 2018 computed in accordance with FASB ASC Topic 718. On such date, Mr. Wang was granted an option to purchase 70,000 shares of the Company's common stock at an exercise price of $2.82, of which one-third of such options were immediately exercisable on the date of the grant, one-third vest and become exercisable on April 19, 2019 and the remaining one-third vest and become exercisable on April 19, 2020.

(3) Represents the grant date fair value of the stock options awarded to Mr. Wang on March 9, 2017 computed in accordance with FASB ASC Topic 718. On such date, Mr. Wang was granted an option to purchase 210,000 shares of the Company's common stock at an exercise price of $10.72, of which one-third of such options were immediately exercisable on the date of the grant, one-third vested and became exercisable on December 22, 2018 and the remaining one-third vest and become exercisable on December 22, 2019. Please refer to Note 10 of our Quarterly Report on Form 10-Q for the three months ended March 31, 2017 for the assumptions utilized in calculating the fair value.

(4) Mr. Kirsch served as our Co-Executive Chairman since March 30, 2016 and resigned on January 3, 2019.

(5) Represents the grant date fair value of the stock options awarded to Mr. Kirsch on April 19, 2018 computed in accordance with FASB ASC Topic 718. On such date, Mr. Wang was granted an option to purchase 75,000 shares of the Company's common stock at an exercise price of $2.82, of which one-third of such options were immediately exercisable on the date of the grant, one-third vest and become exercisable on April 19, 2019 and the remaining one-third vest and become exercisable on April 19, 2020.

(6) Represents the grant date fair value of the stock options awarded to Mr. Song on April 19, 2018 computed in accordance with FASB ASC Topic 718. On such date, Mr. Wang was granted an option to purchase 75,000 shares of the Company's common stock at an exercise price of $2.82, of which one-third of such options were immediately exercisable on the date of the grant, one-third vest and become exercisable on April 19, 2019 and the remaining one-third vest and become exercisable on April 19, 2020.

(7) Mr. Song was appointed as our Co-Executive Chairman effective January 12, 2017 and he resigned from the Board on February 20, 2019.

Employment Agreements with Named Executive Officers

In 2016, we entered into an employment agreement with Maoji (Michael) Wang, who became our Chief Executive Officer effective December 22, 2016 (the "**Wang Employment Agreement**"). We have also previously entered into an employment agreement with Star Jones, our President (the "**Jones Employment Agreement**").

Jones Employment Agreement

Jones Employment Agreement provides that Ms. Jones will serve as the Company's President and receive an annual base salary of $300,000. Jones Employment Agreements also provides for an initial term of three years that automatically renews for successive one-year terms unless either party provides advance written notice of its intention to terminate the employment agreement. It also provides that Ms. Jones will be eligible to receive an annual bonus and have her salary reviewed each year by the Board. In addition, Ms. Jones will be reimbursed for all reasonable business expenses incurred in the ordinary course of business and taking into consideration each such executive officer's unique responsibilities within the Company. The Jones Employment Agreement also generally allows Ms. Jones to participate in all benefit plans and programs offered by the Company.

Under the terms Jones Employment Agreement, Ms. Jones is subject to non-competition, non-interference and non-raiding restrictive covenants during her employment and 18 months following the named executive officer's last day of employment with the Company. In the event that employment is terminated without "cause" or Ms. Jones resigns for "good reason" (as those terms are defined by the Jones Employment Agreements), the post-employment restrictive covenant period may not extend past the severance period (as described below). The Jones Employment Agreement also contains customary confidentiality, work product and return of Company property covenants.

The Jones Employment Agreement provides Ms. Jones with severance pay in the event she is terminated without "cause" or resign for "good reason." Upon such a termination of employment, she entitled to continue to receive their monthly salary at the then current rate for the greater of six months or the number of remaining whole months in her term (whether the initial term or an extension), as well as a pro rata bonus based on the Company's actual performance for the year in which such termination occurs. Finally, The Jones Employment Agreement also provides that she will become immediately fully vested in any unvested shares of restricted stock granted to her in connection with the merger with NAPW, Inc. upon her termination without "cause" or her resignation for "good reason."

Wang Employment Agreement

The Wang Employment Agreement with Mr. Wang was executed on March 9, 2017 (the **"Wang Effective Date"**) with a retroactive effective date for purposes of base compensation of December 22, 2016. The Wang Employment Agreement continues until terminated in writing by either party or earlier terminated pursuant to the provisions of the Wang Employment Agreement. Under the Wang Employment Agreement, Mr. Wang will receive an annual base salary of $320,000, subject to adjustment in the sole discretion of the Board or the Compensation Committee of the Board; provided however, that such annual base salary may not be decreased until the first anniversary of the Wang Effective Date. Mr. Wang will be eligible to receive an annual incentive bonus, at a target amount of not less than his base salary, based upon the achievement of one or more performance goals, targets, measurements and other factors, established for such year by the Board or the Compensation Committee. Mr. Wang will also participate in all benefit plans and programs, subject to certain conditions and exceptions, as are generally provided by the Company to its other senior executive employees.

Under the terms of the Wang Employment Agreement, Mr. Wang is subject to non-solicitation, non-competition and non-interference restrictive covenants during his employment and for the 12-month period following his last day of employment with the Company. The Wang Employment Agreement also contains customary confidentiality, work product and return of Company property covenants.

In addition, Mr. Wang is entitled to severance pay if he is terminated without "cause" or resigns for "good reason," each as defined in the Wang Employment Agreement. Upon such termination, provided that he executes a release and waiver agreement, Mr. Wang will be entitled to receive an amount equal to the sum of his base salary, any earned but unpaid bonus for the year prior to the year of termination, and the pro rata portion of any bonus earned for the year in which termination occurs, as well as continuation of applicable benefits for a period of 12 months following his termination.

In connection with the approval of the Wang Employment Agreement, the Board also granted to Mr. Wang a non-qualified stock option to purchase 210,000 shares of the Company's common stock. The option will vest in accordance with the following schedule: (i) 1/3 of the shares underlying the option vested immediately upon award, (ii) 1/3 of the shares underlying the option will vested on the first anniversary of the Wang Effective Date, and (iii) 1/3 of the shares underlying the option will vest on the second anniversary of the Wang Effective Date.

He's Employment Agreement

On March 11, 2019 (the "**He Effective Date**"), the Company entered into an employment agreement (the "**He Employment Agreement**") with Mr. He, which He Employment Agreement continues until terminated in writing by either party or earlier terminated pursuant to the provisions of the He Employment Agreement. Under the He Employment Agreement, Mr. He will receive an annual base salary of $200,000, subject to adjustment in the sole discretion of the Board or the Compensation Committee of the Board; provided however, that such annual base salary may not be decreased during Mr. He's employment period. Mr. He will be eligible to receive an annual incentive bonus in an amount equal to up to fifty percent (50%) of his base salary, based upon the achievement of one or more performance goals, targets, measurements and other factors, established for such year by the Compensation Committee. Mr. He will also participate in all benefit plans and programs, subject to certain conditions and exceptions, as are generally provided by the Company to its other senior executive employees.

Under the terms of the He Employment Agreement, Mr. He is subject to non-solicitation, non-competition and non-interference restrictive covenants during his employment and for the 12-month period following his last day of employment with the Company. The He Employment Agreement also contains customary confidentiality, work product and return of Company property covenants.

In addition, Mr. He is entitled to severance pay if he is terminated without “cause” or resigns for “good reason,” each as defined in the He Employment Agreement. Upon such termination, Mr. He will be entitled to receive an amount equal to 30 days of his base salary, any earned but unpaid bonus for the year prior to the year of termination, and the pro rata portion of any bonus earned for the year in which termination occurs, as well as continuation of applicable benefits for a period of six months following his termination.

In connection with the approval of the He Employment Agreement, Mr. He also received a non-qualified stock option to purchase 30,000 shares of the Company’s common stock. The option will vest in accordance with the following schedule: (i) 1/3 of the shares underlying the option will vest immediately upon award, (ii) 1/3 of the shares underlying the option will vest on the first anniversary of the He Effective Date, and (iii) 1/3 of the shares underlying the option will vest on the second anniversary of the He Effective Date.

Outstanding Equity Awards at December 31, 2018

The following table sets forth the equity awards we have made to our named executive officers that were outstanding as of December 31, 2018.

	Option Awards				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (#) exercisable**	**Number of Securities Underlying Unexercised Options (#) unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of shares of stock that have not**	**Market Value of shares or units that have not vested**

						vested (#)	**($)**
Maoji (Michael) Wang	210,000	-		$ 10.72	03/08/2027	—	—
Maoji (Michael) Wang	23,333	46,667	(1)	$ 2.82	04/18/2028	46,667	131,601
James Kirsch	25,000	50,000	(2)	$ 2.82	04/18/2028	50,000	141,000
Jingbo Song	25,000	50,000	(3)	2.82	04/18/2028	50,000	141,000

(1) Represents unvested portion of an award of options to purchase 70,000 shares of the Company's common stock. The stock options awarded pursuant to this stock option grant vest and become exercisable in accordance with the following schedule: (i) 1/3 of the shares underlying the option vested immediately on the date of grant (April 19, 2018), (ii) 1/3 of the shares underlying the option vest on April 19, 2019, and (iii) 1/3 of the shares underlying the option vest on April 19, 2020.

(2) Represents unvested portion of an award of options to purchase 75,000 shares of the Company's common stock. The stock options awarded pursuant to this stock option grant vest and become exercisable in accordance with the following schedule: (i) 1/3 of the shares underlying the option vested immediately on the date of grant (April 19, 2018), (ii) 1/3 of the shares underlying the option vest on April 19, 2019, and (iii) 1/3 of the shares underlying the option vest on April 19, 2020.

(3) Represents unvested portion of an award of options to purchase 75,000 shares of the Company's common stock. The stock options awarded pursuant to this stock option grant vest and become exercisable in accordance with the following schedule: (i) 1/3 of the shares underlying the option vested immediately on the date of grant (April 19, 2018), (ii) 1/3 of the shares underlying the option vest on April 19, 2019, and (iii) 1/3 of the shares underlying the option vest on April 19, 2020.

Director Compensation

During 2018, we paid our non-employee directors the following fees in cash: (1) $5,000 annual retainer fee, (2) $25,000 of Restricted Stock Units, (3) a $1,000 retainer for those directors serving on the Audit Committee and a $4,000 retainer for the Audit Committee Chair, (4) a $500 retainer for those directors for serving on the Compensation Committee and a $1,000 retainer for the Compensation Committee Chair, (4) a $500 retainer for those directors serving on the Nominating and Corporate Governance Committee and a $1,000 retainer for the Nominating and Corporate Governance Committee Chair.

Messrs. Wang, Song and Kirsch and Ms. Jones served as our executive officers during 2018. As executive officers, these individuals are not compensated for their service as directors.

The following table details the total compensation earned by the Company's non-employee directors in 2018:

Name	Fees Earned or Paid in Cash ($)	All Other Compensation ($)	Total ($)
Xin (Adam) He (1)	$14,000	$ 0	$14,000
Michael Belsky	$11,500	$ 0	$11,500
Lida Fang	$3,458	$ 0	$3,458
Haibin Gong	$3,083	$ 0	$3,083
Hao (Howard) Zhang	$7,000	$ 0	$7,000
Courtney C. Shea	$0	$ 0	$0

(1) Mr. He resigned from the Board and became our CFO on March 11, 2019.
(2) Ms. Shea joined the Board on March 22, 2019.

The table below sets forth the unexercised options held by each of our non-employee directors outstanding as of December 31, 2018.

Name	Aggregate Number of Unexercised Stock Options Outstanding at December 31, 2018
Xin (Adam) He (1)	-
Michael Belsky	-
Lida Fang	-
Haibin Gong	-
Hao (Howard) Zhang	-
Courtney C. Shea	-

(1) Mr. He resigned from the Board and became our CFO on March 11, 2019.
(2) Ms. Shea joined the Board on March 22, 2019.

The table below sets forth the number of Restricted Stock Units held by each of our non-employee directors outstanding as of December 31, 2018.

Name	Aggregate Number of Restricted Stock Units at December 31, 2018
Xin (Adam) He (1)	8,865
Michael Belsky	8,865
Lida Fang	8,038
Haibin Gong	7,267
Hao (Howard) Zhang	8,865
Courtney C. Shea	-

(1) Mr. He resigned from the Board and became our CFO on March 11, 2019.
(2) Ms. Shea joined the Board on March 22, 2019.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) **Weighted -average exercise price of outstanding options**	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by our shareholders	529,439	$ 6.67	301,276
Equity compensation plans not approved by our shareholders	—	—	—
Total	529,439	$ 6.67	301,276

Security Ownership of Management and Certain Beneficial Owners

The following table sets forth information regarding the beneficial ownership of our Common Stock as of April 12, 2019 by:

each person, or group of affiliated persons, known by us to beneficially own more than 5% of our Common Stock;

each of our named executive officers;

each of our directors; and

all of our directors and named executive officers as a group.

The percentage ownership information shown in the table is based upon a total of 4,856,948 shares of Common Stock outstanding as of April 12, 2019.

Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of more than 5% of our Common Stock. We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, the rules include shares of Common Stock issuable pursuant to the exercise of stock options or warrants that are either immediately exercisable or exercisable on or before the date that is 60 days after the date of this proxy statement. These shares are deemed to be outstanding and beneficially owned by the person holding those options for the purpose of computing the percentage ownership of that person. Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws.

Unless otherwise noted below, the address for each person or entity listed in the table is c/o Professional Diversity Network, 801 W. Adams Street, Sixth Floor, Chicago, Illinois 60667.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class	
5% Stockholders				
Cosmic Forward Limited	2,295,842	(1)	47.27	%
White Winston Select Asset Funds, LLC	305,616	(2)	6.29	%
Ahmed Alomari	286,326	(3)	5.90	%
Shengqi Cai	380,295		7.83	%
China EWI International Finance Group Co., Limited	496,510	(4)	10.22	%
Executive Officers and Directors				
Courtney C. Shea	-		*	
Maoji (Michael) Wang	365,173	(5)	7.14	%
Star Jones	119,887		2.47	%
Xin (Adam) He	8,865	(6)	*	
Michael Belsky	8,865	(7)	*	
Haibin Gong	-		*	
Lida Fang	-		*	
Hao (Howard) Zhang	7,772		*	
Directors and officers as a group (10 persons)	510,562		9.95	%

* Less than 1%

(1) Based on the most current Form 4 filed by Cosmic Forward Limited on January 18, 2017.

(2) Based on an amended Schedule 13D filed with the SEC on June 27, 2017 by White Winston Select Asset Funds, LLC. Todd M. Enright, Mark Blundell and Donald Feagan, the managers (the "Managers") of White Winston, have shared voting power and dispositive power over the 305,616 shares beneficially owned by White Winston Select Asset Funds, LLC. Includes 125,000 shares that may be acquired upon the exercise of warrants that are currently exercisable for a purchase price of $20.00 per share. The Managers' address is 265 Franklin St., Suite 1702, Boston, MA 02110.

(3) Based on an amended Schedule 13G filed by Mr. Alomari with the SEC on May 16, 2017. Mr. Alomari's address is 3901 W Charleston Blvd #200, Las Vegas, NV 89102.

(4) Mr. Ji XU is the Chairman and President of China EWI International Finance Group Co., Limited and therefore has the voting power and dispositive power over the 496,510 shares. Mr. Xu's address is Building C, Hengao Center, 26 Jinshifang Street, Xicheng District, Beijing, China.

(5) Includes 256,667 shares that may be acquired upon the exercise of options that are currently exercisable, or will become exercisable within 60 days of April 12, 2019.

(6) Includes 8,865 shares that will be vested within 60 days of April 12, 2019.

(7) Includes 8,865 shares that will be vested within 60 days of April 12, 2019.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Party Transactions

The following is a summary of transactions, since January 1, 2018, to which we have been a party in which the amount involved exceeded the lesser of $120,000 or 1% of the average of our total assets at December 31, 2017 and December 31, 2018, and in which any of our directors, executive officers, beneficial holders of more than 5% of our capital stock or certain other related persons had or will have a direct or indirect material interest, other than compensation arrangements that are described under the section entitled "*Executive Compensation*."

Policy Regarding Review, Approval or Ratification of Related Party Transactions

The charter of the Company's Audit Committee sets forth the Company's policies and procedures for the review, approval or ratification of transactions in which the Company is a participant and the amount exceeds $120,000, and in which any related person had or will have a direct or indirect material interest. The Audit Committee charter expressly states that the review and approval of such transactions is among the responsibilities of the Audit Committee, unless otherwise delegated to another committee of the Board consisting solely of independent directors. The Audit Committee is authorized to engage independent counsel and other advisers as it determines is necessary to carry out its duties, including with respect to its review of related party transactions. There are no additional policies stating the standards required to be met for such transactions to be approved; accordingly, the Audit Committee will act within its discretion, subject to its fiduciary and other duties, in deciding whether to approve any related party transaction.

Director Independence

Our Board has reviewed the materiality of any relationship that each of our directors has with us, either directly or indirectly. Based on this review, our board has determined that Messrs. Belsky, He, Gong and Zhang and Ms. Fang and Ms. Shea are "independent directors" as defined by Rule 5605(a)(2) of the Marketplace Rules of the Nasdaq Stock Market. Under the terms of a stockholders' agreement entered into between the Company and CFL, our majority stockholder, CFL has right to designate one director nominee for every 9.9% of the total voting power of our common stock that CFL beneficially owns, up to a maximum of six directors.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

Principal Accounting Fees and Services

The following table summarizes fees for professional services rendered to the Company by Ciro E. Adams, CPA, LLC for the fiscal years ended December 31, 2018 and 2017, respectively.

Fees:	2018	2017
Audit Fees	$97,500	$ -
Audit-Related Fees	$-	-
Tax Fees	-	-

All Other Fees	-	-
Total	$97,500	$ -

The following table summarizes fees for professional services rendered to the Company by Marcum LLP for the fiscal years ended December 31, 2018 and 2017, respectively.

Fees:	2018	2017
Audit Fees	$130,988	$252,325
Audit-Related Fees	$-	-
Tax Fees	-	-
All Other Fees	-	-
Total	$130,988	$252,325

Audit Fees. For the fiscal years ended December 31, 2018 and 2017, the “Audit Fees” reported above were billed by Ciro E. Adams CPA LLC, and Marcum LLP for professional services rendered for the audit of the Company’s annual financial statements, reviews of the Company’s quarterly financial statements, services normally provided by the independent auditors in connection with statutory and regulatory filings and engagements, and comfort letters and consents.

Audit-Related Fees. The Company did not pay any audit-related fees to Ciro E. Adams CPA LLC, and Marcum LLP in 2018 or 2017.

Tax Fees. The Company did not pay any tax-related fees to Ciro E. Adams CPA LLC, and Marcum LLP in 2018 or 2017.

All Other Fees. The Company did not pay any other fees to Ciro E. Adams CPA LLC, and Marcum LLP in 2018 or 2017.

Pre-Approval Policy and Independence

The Audit Committee has a policy requiring the pre-approval of all audit and permissible non-audit services provided by the Company's independent auditors. Under the policy, the Audit Committee is to specifically pre-approve any recurring audit and audit-related services to be provided during the following fiscal year. The Audit Committee also may generally pre-approve, up to a specified maximum amount, any nonrecurring audit and audit-related services for the following fiscal year. All pre-approved matters must be detailed as to the particular service or category of services to be provided, whether recurring or non-recurring, and reported to the audit committee at its next scheduled meeting. Permissible non-audit services are to be pre-approved on a case-by-case basis. The Audit Committee may delegate its pre-approval authority to any of its members, provided that such member reports all pre-approval decisions to the Audit Committee at its next scheduled meeting. The Company's independent auditors and members of management are required to report periodically to the Audit Committee the extent of all services provided in accordance with the pre-approval policy, including the amount of fees attributable to such services.

In accordance with Section 10A of the Exchange Act, the Company is required to disclose the approval by the Audit Committee of non-audit services performed by the Company's independent auditors. Non-audit services are services other than those provided in connection with an audit review of the financial statements. During the period covered by this filing, all audit-related fees, tax fees and all other fees, and the services rendered in connection with those fees, as reported in the table shown above, were approved by the Company's Audit Committee.

The Audit Committee considered the fact that Marcum LLP has not provided non-audit services to us, which the committee determined was compatible with maintaining auditor independence.

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The financial statements and schedules listed in the accompanying Index to Financial Statements on page F-1 are filed as part of this report.

2. Financial Statement Schedules

The financial statement schedules have been omitted because they are not applicable or because the required information is given in the consolidated financial statements and notes thereto.

3. Exhibits

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger among the Company, NAPW Merger Sub, Inc., NAPW, Inc. and Matthew B. Proman, dated as of July 11, 2014 (incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on July 14, 2014).
2.2	Stock Purchase Agreement, dated as of August 12, 2016, by and between Professional Diversity Network, Inc. and Cosmic Forward Limited, including as Exhibit A the form of Stockholders' Agreement (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on August 15, 2016).
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended through October 17, 2016 (incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2016).

Exhibit Number	Description of Exhibit
3.2	Second Amended and Restated Bylaws of the Company, as amended (incorporated herein by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed with the SEC on November 8, 2016).
4.1	Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 of Amendment No. 12 to the Company's Registration Statement on Form S-1 (No. 333-181594), filed with the SEC on February 28, 2013).
4.2	Form of Underwriters' Warrant (incorporated herein by reference to Exhibit 1.1 of Amendment No. 12 to the Company's Registration Statement on Form S-1 (No. 333-181594), filed with the SEC on February 28, 2013).
4.3±	Common Stock Purchase Warrant for the Purchase of 6,000 Shares of Common Stock of Professional Diversity Network, Inc. between David Bocchi and the Company, dated as of September 24, 2014 (incorporated by reference herein to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014).
4.4	Common Stock Purchase Warrant for the Purchase of 50,000 Shares of Common Stock of Professional Diversity Network, Inc. between Matthew B. Proman and the Company, dated as of September 24, 2014 (incorporated by reference herein to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014).
4.5	Common Stock Warrant for the Purchase of 131,250 Shares of Common Stock of Professional Diversity Network, Inc. between Matthew B. Proman and the Company, dated as of September 24, 2014 (incorporated by reference herein to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014).
4.6	Warrant for the Purchase of 1,000,000 Shares of Common Stock of Professional Diversity Network, Inc. at a purchase price of $0.25 between White Winston Select Asset Funds, LLC and Professional Diversity Network, Inc., dated June 30, 2016 (incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2016).
4.7	Warrant for the Purchase of 1,750,000 Shares of Common Stock of Professional Diversity Network, Inc. at a purchase price of $0.25 between White Winston Select Asset Funds, LLC and Professional Diversity Network, Inc., dated June 30, 2016 incorporated herein by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2016).
4.8	Warrant for the Purchase of 1,000,000 Shares of Common Stock of Professional Diversity Network, Inc. at a purchase price of $2.50 between White Winston Select Asset Funds, LLC and Professional Diversity Network, Inc., dated June 30, 2016 (incorporated herein by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2016).
4.9	Stockholders' Agreement, dated as of November 7, 2016, by and among Professional Diversity Network, Inc., Cosmic Forward Limited, Maoji (Michael) Wang, Jingbo Song, Yong Xiong Zheng and Nan Nan Kou (incorporated herein by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K filed with the SEC on November 8, 2016).
4.10	Agreement on Exclusive Technical Support, Consultation and Service, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd. and Jiangxi PDN Culture & Media Co., Ltd. (incorporated herein by reference to Exhibit 4.10 to the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2018).
4.11	Business Operation Agreement, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd. and Jiangxi PDN Culture & Media Co., Ltd. (incorporated herein by reference to Exhibit 4.11 to the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2018).

4.12	Equity Interest Pledge Agreement, dated as of February 26, 2018 between PDN (China) International Culture Development Co., Ltd., Maoji (Michael) Wang and Anyong Wu. (incorporated herein by reference to Exhibit 4.12 to the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2018).
4.13	Exclusive Stock Option Agreement, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd., Maoji (Michael) Wang and Anyong Wu. (incorporated herein by reference to Exhibit 4.13 to the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2018).
4.14	Intellectual Property Licensing Agreement, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd. and Jiangxi PDN Culture & Media Co., Ltd. (incorporated herein by reference to Exhibit 4.14 to the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2018).
10.1	Master Services Agreement between Apollo Group and the Registrant, dated October 1, 2012, (incorporated herein by reference to Exhibit 10.6 of Amendment No. 9 to the Company's Registration Statement on Form S-1 (No. 333-181594), filed with the SEC on January 16, 2013).
10.2	Statement of Work by and between the Registrant and Apollo Group, dated October 1, 2012 (incorporated herein by reference to Exhibit 10.13 of Amendment No. 12 to the registrant's Registration Statement on Form S-1 (No. 333-181594) filed with the SEC on February 28, 2013).
10.3	Insertion Order between Apollo Group and the Registrant, dated June 11, 2012 (incorporated herein by reference to Exhibit 10.11 of Amendment No. 4 to the registrant's Registration Statement on Form S-1 (No. 333-181594) filed with the SEC on September 7, 2012)
10.4†	Diversity Recruitment Partnership Agreement between the Registrant and LinkedIn Corporation, dated as of November 6, 2012 (incorporated herein by reference to Exhibit 10.12 of Amendment No. 9 to the registrant's Registration Statement on Form S-1 (No. 333-181594) filed with the SEC on January 16, 2013)
10.5#	Amended and Restated Employment Agreement between the Company and James Kirsch, dated as of September 24, 2014 (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014)

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Exhibit Number	Description of Exhibit
10.6#	Employment Agreement between the Company and David Mecklenburger, dated as of September 24, 2014 (incorporated herein by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014)
10.7#	Employment Agreement between the Company and Matthew Proman, dated as of September 24, 2014 (incorporated herein by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014)
10.8#	Employment Agreement between the Company and Star Jones, dated as of September 24, 2014 (incorporated herein by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014)
10.9#	Employment Agreement between the Company and Christopher Wesser, dated as of September 24, 2014 (incorporated herein by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014)
10.10#	Severance Agreement and General Release, dated as of March 10, 2015, between the Company and Rudy Martinez (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2015)
10.11#	Offer Letter, dated February 20, 2015, from the Company to Jorge Perez (incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the SEC on March 31, 2015).
10.12#	Professional Diversity Network, Inc. 2013 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.15 of Amendment No. 12 to the registrant's Registration Statement on Form S-1 (No. 333-181594) filed with the SEC on February 28, 2013)
10.13	Form of Professional Diversity Network, Inc. 2013 Equity Compensation Plan Nonqualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014)
10.14#	Amendment No. 1 to Professional Diversity Network, Inc. 2013 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-8 filed with the SEC on May 16, 2016).
10.15	Asset Purchase Agreement among Professional Diversity Network, Inc. and Careerimp, Inc., dated as of June 14, 2013 (incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed with the SEC on March 27, 2014)
10.16	Asset Purchase Agreement among Professional Diversity Network, Inc. and Personnel Strategies, Inc., dated as of September 18, 2013(incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the SEC on March 27, 2014)
10.17	Promissory Note issued by the Company to Matthew B. Proman in the principal amount of $445,000, dated as of September 24, 2014 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2014)
10.18	Professional Diversity Network, Inc. 2013 Equity Compensation Plan Code Section 409A Nonqualified Stock Option Award Agreement, dated as of September 24, 2014, between Matthew Proman and the Company (incorporated herein by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2014)
10.19	Restricted Stock Agreement between the Company and Star Jones, dated as of September 24, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form S-8 filed with the SEC on December 30, 2014)
10.20	Restricted Stock Agreement between the Company and Christopher Wesser, dated as of September 24, 2014 (incorporated by reference herein to Exhibit 10.2 to the Company's Current Report on Form 8-K filed

	with the SEC on December 30, 2014)
10.21	Separation Agreement and Mutual Release of All Claims, dated as of July 16, 2015, between the Company and Matthew Proman (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 16, 2015).
10.22	Confidential Settlement and Mutual Release of All Claims, dated November 4, 2016 by and between the Company and Matthew B. Proman (incorporated herein by reference to the Company's Current Report filed with the SEC on November 14,).

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Exhibit Number	Description of Exhibit
10.23	Master Credit Facility dated March 30, 2016 by and among Professional Diversity Network, Inc., NAPW, Inc., Noble Voice LLC and Compliant Lead LLC, as borrowers, and White Winston Select Asset Funds, LLC, as lender (incorporated herein by reference to Exhibit 10.24 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2016).
10.24	Amendment to the Master Credit Facility and Consent and Waiver Agreement, dated as of August 10, 2016, by and among Professional Diversity Network, Inc., NAPW, Inc., Noble Voice, LLC, Compliant Lead LLC and White Winston Select Asset Funds, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 15, 2016).
10.25	Board Representation Agreement dated June 30, 2016 by and among Professional Diversity Network, Inc. and White Winston Select Asset Funds, LLC (incorporated herein by reference to Exhibit 10.24 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2016).
10.26#	Employment Agreement between the Company and Katherine Butkevich, dated September 30, 2016 (incorporated herein by reference to Exhibit 10.29 to the Company's Current Report on Form 8-K filed with the SEC on October 4, 2016).
10.27	Employment Agreement by and between the Company and Adam He, dated as of March 11, 2019 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 13, 2019).
21*	List of Subsidiaries of the Company
23.1*	Consent of Ciro E. Adams, CPA, LLC.
23.2*	Consent of Marcum LLP.
24	Powers of Attorney (included on the signature page to this report)
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 and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

† Confidential treatment requested as to certain portions of this exhibit. Such portions have been redacted and submitted separately to the SEC.

# Denotes a management contract or compensation plan or arrangement

± The Common Stock Purchase Warrants issued by the Company to each of Craig Skop, Priyanka Mahajan, Kevin Mangan, Eric Lord, Ramnarain Jaigobind, Zachary Hirsch , Joseph Haughton, Phillip Michals, Raffaele Gambardella and Robert Eide, all of whom are affiliates of Aegis Capital Corp., are substantially identical in all material respects to the Common Stock Purchase Warrant issued to David Bocchi and filed as an exhibit, except as to the recipient of such warrants and the number of shares of Common Stock issuable upon exercise of such warrants. Pursuant to SEC regulation, we have omitted filing copies of such warrants as exhibits to this Annual Report on Form 10-K.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

Professional Diversity Network, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 3-Discontinued Operations, the consolidated balance sheet of Professional Diversity Network, Inc. and Subsidiaries (the “Company”) as of December 31, 2017, the related consolidated statements of operations and comprehensive loss, stockholders’ equity and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the 2017 financial statements, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 3-Discontinued Operations, present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in accounting described in Note 3-Discontinued Operations and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by Ciro E. Adams, CPA, LLC. The 2017 financial statements before the effects of the adjustments discussed in Note 3 are not presented herein.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Marcum llp

Marcum llp

We served as the Company's auditor from 2012 to 2018.

Melville, NY

March 30, 2018

Professional Diversity Network, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	2017
Current Assets:		
Cash and cash equivalents (Amount related to variable interest entity of $683,043, and $1,671,378 in 2018 and 2017, respectively)	$1,441,607	$2,926,088
Accounts receivable, net	816,698	905,723
Incremental direct costs	20,797	145,292
Prepaid expenses and other current assets	350,906	478,379
Current assets from discontinued operations	126,270	1,180,099
Total current assets	2,756,278	5,635,581
Property and equipment, net	83,608	221,184
Capitalized technology, net	194,833	153,381
Goodwill	339,451	5,590,150
Intangible assets, net	1,020,942	6,264,706
Merchant reserve	760,849	760,849
Security deposits	82,139	225,957
Long-term assets from discontinued operations	-	137,114
Total assets	$5,238,100	$18,988,922
Current Liabilities:		
Accounts payable	$1,843,688	$1,120,444
Accrued expenses	989,626	1,166,214
Deferred revenue	2,460,436	4,004,015
Note Payable – related party	500,000	-
Current liabilities from discontinued operations	346,528	484,524
Total current liabilities	6,140,278	6,775,197
Deferred tax liability	194,786	1,803,519
Deferred rent	13,742	56,082
Other liabilities	82	52,321
Total liabilities	6,348,888	8,687,119
Commitments and contingencies		
Stockholders' Equity		
Common stock, $0.01 par value, 45,000,000 shares authorized, 4,856,213 shares and 3,963,864 shares issued as of December 31, 2018 and 2017, respectively, and 4,855,165 and 3,962,816 shares outstanding as of December 31, 2018 and 2017, respectively	48,562	39,639
Additional paid in capital	83,728,903	80,016,218

Accumulated other comprehensive income	(24,340)	28,848
Accumulated deficit	(84,826,796)	(69,745,785)
Treasury stock, at cost; 1,048 shares at December 31, 2018 and 2017	(37,117)	(37,117)
Total stockholders' equity	(1,110,788)	10,301,803
Total liabilities and stockholders' equity	$5,238,100	$18,988,922

See Note 3 for Additional Variable Interest Entity Disclosures.

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

Professional Diversity Network, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Year Ended December 31,	
	2018	2017
Revenues:		
Membership fees and related services	$4,991,950	$9,371,843
Recruitment services	2,571,935	2,578,597
Product sales and other	19,239	100,289
Education and training	606,557	3,776,546
Consumer advertising and marketing solutions	262,946	252,980
Total revenues	8,452,627	16,080,255
Costs and expenses:		
Cost of revenues	1,612,858	2,693,408
Sales and marketing	3,969,508	7,269,001
General and administrative	8,016,716	11,612,024
Litigation settlement	342,472	155,216
Impairment charge	8,047,090	14,611,040
Depreciation and amortization	2,617,774	3,007,664
Total costs and expenses	24,606,418	39,348,353
Loss from operations	(16,153,791)	(23,268,098)
Other (expense) income		
Interest expense	(4,637)	(12,399)
Interest and other income	299	8,165
Other income (expense)	22,558	8,421
Other income, net	18,220	4,187
Loss before income tax expense (benefit)	(16,135,571)	(23,263,911)
Income tax expense (benefit)	(1,563,712)	(1,687,370)
Loss from continuing operations	(14,571,859)	(21,576,541)
Loss from discontinued operations (net of tax benefit of $52,340, and net of tax benefit of $58,144 in 2018 and 2017, respectively), including gain on sale of $63,687 in 2018	(509,153)	(711,008)
Net loss	$(15,081,012)	(22,287,549)
Other comprehensive loss:		
Foreign currency translation adjustment	(53,188)	28,848
Comprehensive loss	$(15,134,200)	(22,258,701)
Basic and diluted loss per share:		
Continuing operations	$(3.18)	$(5.50)
Discontinued operations	$(0.11)	$(0.18)

Net loss	$(3.29)	$(5.68)
Weighted average outstanding shares used in computing net loss per common share:		
Basic and diluted	4,578,834	3,920,849

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

Professional Diversity Network, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid In	Accumulated	Treasury Stock		Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Income (Loss)	Equity
Balance at January 1, 2017	3,620,386	$36,204	$76,234,772	$(47,458,236)	1,048	$(37,117)	-	$28,775,623
Net proceeds from sale of common stock to Cosmic Forward Limited	312,500	3,125	2,817,875	-	-	-		2,821,000
Sale of common stock	18,200	182	63,336	-	-	-	-	63,518
Translation adjustments	-	-	-	-	-	-	28,848	28,848
Stock-based compensation	12,778	128	900,235	-	-	-	-	900,363
Net loss	-	-	-	(22,287,549)	-	-	-	(22,287,549)
Balance at December 31, 2017	3,963,864	$39,639	$80,016,218	$(69,745,785)	1,048	$(37,117)	28,848	$10,301,803
Sale of common stock	876,805	8,768	2,913,100	-	-	-		2,921,868
Issuance of common stock	15,544	155	(155)	-	-	-	-	-
Translation adjustments	-	-	-	-	-	-	(53,188)	(53,188)
Stock-based compensation	-	-	799,741	-	-	-	-	799,741
Net loss	-	-	-	(15,081,012)	-	-		(15,081,012)
Balance at December 31, 2018	4,856,213	$48,562	$83,728,904	$(84,826,797)	1,048	$(37,117)	$ (24,340)	$(1,110,788)

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

Professional Diversity Network, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Loss from continuing operations	$(14,571,859)	$(21,576,541)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities– continuing operations:		
Depreciation and amortization	2,617,775	3,007,664
Deferred tax expense (benefit)	(1,393,925)	(1,928,522)
Impairment charge	8,047,090	14,611,040
Stock-based compensation expense	799,741	900,363
Provision for bad debt	54,397	36,614
Write-off of security deposit	170,732	-
Write-off of property and equipment	51,804	-
Changes in operating assets and liabilities, net of effects of discontinued operations:		
Accounts receivable	(36,217)	(267,442)
Prepaid expenses and other current assets	123,449	486,913
Incremental direct costs	124,495	277,731
Accounts payable	730,696	(786,841)
Accrued expenses	(120,353)	262,105
Deferred revenue	(1,529,865)	(1,481,584)
Deferred rent	(42,341)	3,714
Customer deposits	(30,257)	-
Other liabilities	(52,236)	19,162
Net cash used in operating activities– continuing operations	(5,056,874)	(6,435,624)
Net cash provided by operating activities – discontinued operations	120,911	230,141
Net cash used in operating activities	(4,935,963)	(6,205,483)
Cash flows from investing activities:		
Costs incurred to develop technology	(119,924)	(182,564)
Purchases of property and equipment	(7,937)	(153,628)
Security deposit	-	(4,559)
Net cash used in investing activities– continuing operations	(127,861)	(363,522)
Net cash provided by (used in) investing activities – discontinued operations	200,000	(2,550)
Net cash provided by (used in) investing activities	72,139	(343,301)
Cash flows from financing activities:		
Proceeds from the sales of common stock	2,921,867	3,063,518
Proceeds from note payable – related party	500,000	
Payment of offering costs	-	(144,000)
Merchant reserve	-	666,078
Net cash provided by financing activities	3,421,867	3,585,596

Effect of exchange rate fluctuations on cash and cash equivalents	(42,523)	33,805
Net decrease in cash and cash equivalents	(1,484,481)	(2,929,383)
Cash and cash equivalents, beginning of period	2,926,088	5,855,471
Cash and cash equivalents, end of period	$1,441,607	$2,926,088
Supplemental disclosures of other cash flow information:		
Cash paid for income taxes	$67,954	$1,702

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

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

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"), PDN (Hong Kong) International Education Ltd, PDN (Hong Kong) International Education Information Co., Ltd, and PDN (China) International Culture Development Co. Ltd, each of which is a wholly-owned subsidiary of the Company and together provide career consultation services. In November 2017, Jiangxi PDN Culture Media Co., Ltd became our consolidated variable interest entity (VIE). Laws and regulations of the People's Republic of China ("PRC") prohibit or restrict companies with foreign ownership from certain activities and benefits including eligibility for certain government grants and certain rebates related to commercial activities. To provide the Company the expected residual returns of the VIE, the Company, through its wholly-owned subsidiary PDN (China) International Culture Development Co., Ltd., entered into a series of contractual arrangements with the VIE and its registered shareholders to enable the Company, to exercise effective control over the VIE, receive substantially all of the economic benefits and residual returns, and absorb substantially all the risks of the VIE as if it were the sole shareholder; and have an exclusive option to purchase all of the equity interests in the VIE. Please refer to Note 3 for more details about the VIE. 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 an exclusive women-only professional networking organization, 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. The Company established business operations in China in 2017. Our business activities, similar to those in the United States, will be focused on providing tools, products and services in China, which will assist in personal and professional development.

On May 25, 2018, the Company sold Noble Voice to a long-time customer of the Company and exited the business segment conducted by Noble Voice. See Note 3 for additional information.

2. Going Concern and Management's Plans

At December 31, 2018, the Company's principal sources of liquidity were its cash and cash equivalents and the net proceeds from the sales of shares in 2018.

The Company had an accumulated deficit of approximately $(84,827,000) at December 31, 2018. During the year ended December 31, 2018, the Company generated a net loss from continuing operations of $(14,572,000), and used cash in continuing operations of $5,057,000. At December 31, 2018, the Company had a cash balance of approximately $1,442,000. Total revenues were approximately $8,453,000 and $16,080,000 for the years ended December 31, 2018 and 2017. The Company had a working capital deficiency of approximately $(3,384,000) and $(1,140,000) at December 31, 2018 and 2017. These conditions raise substantial doubt about its 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 consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company is closely monitoring operating costs and capital requirements. Management of the Company also made efforts in 2018 and 2017 to contain and reduce cost, including terminating non-performing employees and eliminating certain positions, replacing and negotiating with certain vendors, implementing a new approval process over travel and other expenses, and significantly reducing the cash compensation for independent board directors. We also sold our Noble Voice business on May 25, 2018 to reduce operating losses and cash burns. If we are still not successful in sufficiently reducing our costs, we may then need to dispose of our other assets or discontinue business lines.

On November 16, 2018, the Company entered into a revolving credit facility agreement that matures on May 31, 2020, under which we can draw up to GBP £1,500,000 (approximately $2,000,000). Interest is payable on any outstanding principal balance at a rate equal to the LIBOR rate plus 4%. Amounts drawn under this facility are payable at the end of one, three, or six months periods at the election of the Company. At December 31, 2018, there were no outstanding amounts drawn under this facility. At March 31, 2019, approximately $1,707,000 was available for us to draw.

From January 9, 2019 to April 2, 2019, the Company sold an aggregate of 232,515 shares of its common stock at a purchase price ranging from $1.146 to $3.85 per share, representing 120% of the closing price the trading day immediately prior to the date of subscription. As of the date of this annual report, the Company has received an aggregate gross proceeds of $479,931 under this private placement. All of the purchasers are citizens of the People's Republic of China.

Management believes that its available funds and cash flow from operations may not be sufficient to meet its working capital requirements through April 2020. In order to fund its operations, the Company will need to either raise capital via stock issuances, utilizing its revolving credit facility, or securing other financing in the US or China.

There are no assurances that the plans and actions proposed by management will be successful, that the Company will generate anticipated revenues, or that unforeseen circumstances 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. In addition, due to China's foreign currency control, the Company cannot move money between China and the USA freely. The People's Bank of China (PBOC) and State Administration of Foreign Exchange (SAFE) regulate the flow of foreign exchange in and out of the country strictly. We need to get approval from Chinese government to move money from China to the U.S. which might take extra time. As of December 31, 2018 we had a $1,336,000 cash balance in China. The independent registered public accounting firm's report on our financial statements as of December 31, 2018, includes a "going concern" explanatory paragraph that describes substantial doubt about our ability to continue as a going concern

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates – The preparation of 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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 consolidated 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; assessment of goodwill impairment, other 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 stock-based compensation and the valuation of stock warrants.

Principles of Consolidation - The accompanying consolidated financial statements include 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.

Variable Interest Entity

Basic Information

The Company follows the guidance of accounting for variable interest entities, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entities.

The Company's management evaluated the relationships between the Company and Jiangxi PDN Culture & Media Co., and the economic benefits flow of the applicable contractual arrangements. The Company concluded that it is the primary beneficiary of Jiangxi PDN Culture & Media Co.. As a result, the results of operations, assets and liabilities of Jiangxi PDN Culture & Media Co. have been included in the Company's consolidated financial statements as of November 16, 2017.

The significant agreements through which the Company exercises effective control over Jiangxi PDN Culture & Media Co. are:

Agreement on Exclusive Technical Support, Consultation and Service, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd. and Jiangxi PDN Culture & Media Co., Ltd.

Business Operation Agreement, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd. and Jiangxi PDN Culture & Media Co., Ltd.

Equity Interest Pledge Agreement, dated as of February 26, 2018 between PDN (China) International Culture Development Co., Ltd., Maoji (Michael) Wang and Anyong Wu.

Exclusive Stock Option Agreement, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd., Maoji (Michael) Wang and Anyong Wu.

Intellectual Property Licensing Agreement, dated as of November 16, 2017 between PDN (China) International Culture Development Co., Ltd. and Jiangxi PDN Culture & Media Co., Ltd.

Financial Information of VIE

Liabilities recognized as a result of consolidating this VIE do not represent additional claims on the Company's general assets. VIE assets can be used to settle obligations of the primary beneficiary. The financial information of Jiangxi PDN Culture & Media Co., which was included in the accompanying consolidated financial statements, is presented as follows:

	December 31,	
	2018	2017
	(in thousands)	
Cash and cash equivalents	$683	1,671
Total assets	$1,180	1,672
Total liabilities	$65	257

	(in thousands)	
	Year ended	
	December 31,	
	2018	2017
Total net revenue	$-	$1,666
Net income (loss)	$(232)	$1,392

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 December 31, 2018 and 2017, the allowance for doubtful accounts amounted to $75,000, and $33,000, respectively.

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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. The commissions are deferred and amortized over the term of membership, which is a 12 month period. Amortization of deferred commissions is included in sales and marketing expense in the accompanying consolidated statements of operations. Incremental direct costs amounted to $21,000 and $145,000 at December 31, 2018 and 2017, respectively. Amortization expense of deferred commissions amounted to $239,000 and $819,000 for the years ended December 31, 2018 and 2017, respectively.

***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 3 to 5 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.

***Capitalized Technology Costs* -** In accordance with 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 to the consolidated statements of operations.

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.

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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.

As a result of the recurring operating losses incurred in NAPW since its acquisition in September 2014, the Company undertook a review of the carrying amount of its goodwill. The Company performed its review based on both qualitative and quantitative factors and determined that carrying value of NAPW's goodwill exceeded its implied fair value. Accordingly, the Company recorded a goodwill impairment charge of $5,251,000, and $14,611,000 in the accompanying consolidated statement of operations and comprehensive loss during the year ended December, 31 2018 and 2017, respectively.

Treasury Stock – Treasury stock is recorded at cost as a reduction of stockholders' equity in the accompanying consolidated 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.

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 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 press release is distributed.

Deferred Revenue – Deferred revenue includes customer deposits received prior to performing services which are recognized as revenue when revenue recognition criteria are met, and membership fees for annual memberships that are collected at the time of enrollment and are recognized as revenue ratably over the 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

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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 in the accompanying consolidated statements of operations.

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

On May 25, 2018, the Company sold Noble Voice to a long-time customer of the Company and exited the business segment previously conducted by Noble Voice. The sales included all property, equipment, intangible assets, and other long-term assets. The Company retained cash, receivables, payables, and other current and non-current assets and liabilities. The purchase price was $200,000 and the gain on the transaction was approximately $64,000.

All historical operating results for Noble Voice are included in a loss from discontinued operations, net of tax, in the accompanying consolidated statement of operations. Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 discontinued operations presentation. For the year ended December 31, 2018, loss from discontinued operations was $509,000, net of tax benefit of $52,000, compared to a loss of $711,000, net of tax benefit of $58,000 for the year ended December 31, 2017.

Assets and liabilities that the Company retained, which were previously reported in the Noble Voice operating segment, are now included in current assets from discontinued operations, and current liabilities from discontinued operations. As of December 31, 2018, the current assets from discontinued operations were $126,000, compared to $1,180,000 as of December 31, 2017. As of December 31, 2018, current liabilities from discontinued operations were $347,000 compared to $485,000 as of December 31, 2017.

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 years ended December 31, 2018 and 2017, the Company incurred advertising and marketing expenses of approximately $1,375,000 and $2,859,000, respectively. These amounts are included in sales and marketing expenses in the accompanying consolidated statements of operations. At December 31, 2018 and 2017, there were no prepaid advertising expenses recorded in the accompanying consolidated balance sheets.

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 December 31, 2018. 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, 2013 through 2018.

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 December 31, 2018.

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.

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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 years ended December 31, 2018 and 2017 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	2018	2017
Warrants to purchase common stock	170,314	170,314
Stock options	499,439	246,564
Unvested restricted stock	60,651	15,544
	730,404	432,422

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers ("ASC 606" or "ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition" and some cost guidance included in ASC Subtopic 605-35, "Revenue Recognition - Construction-Type and Production-Type Contracts." The core principle of ASU 2014-09 is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. ASU 2014-09 requires the disclosure of sufficient information to enable readers of the Company's financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 also requires disclosure of information regarding significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB voted to delay the effective date of ASU 2014-09 by one year to the first quarter of 2018 to provide companies sufficient time to implement the standards. ASU 2014-09 provides two methods of retrospective application, either the full retrospective or cumulative effect transition method. The first method would require the Company to apply ASU 2014-09 to each prior reporting period presented. The second method would require the Company to retrospectively apply ASU 2014-09 with the cumulative effect recognized at the date of initial application. ASC 606 requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time based on when control of goods and services transfer to a customer. The Company has completed its initial assessment of the new standard and is in the process of assessing its contracts with customers, through a detailed review of their contract portfolio and comparing its historical accounting policies and practices to the new standard. The Company will continue to assess the impact through its implementation process. The Company expects to adopt ASC 606 using the modified retrospective transition method in the quarter ending March 31, 2019. The financial presentation and results of operations for reporting periods after January 1, 2019 will be presented under the new guidance, while financial presentation and results of operations for prior periods presented will continue to be reported in accordance with the legacy standard and the Company's historical accounting policy. The Company's adoption of ASU 2014-09 in 2019 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued new lease accounting guidance ASU No. 2016-02, "Leases" ("ASU 2016-02"), as amended by ASU 2018-10, "Codification Improvements to Topic 842, Leases" and ASU 2018-11, "Leases (Topic 842): Targeted Improvements." Under the new guidance, at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new guidance is not applicable for leases with a term of 12 months or less. Lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. ASC 842 was previously required to be adopted using the modified retrospective approach. However, in July 2018, the FASB issued ASU 2018-11, which allows for retrospective application with the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this option, entities would not need to apply ASC 842 (along with its disclosure requirements) to the comparative prior periods presented. Management expects that most of its operating leases (primarily office space) will be recognized as operating lease liabilities and right of use assets on its consolidated balance sheet. The Company has elected to adopt certain of the optional practical expedients, including the package of practical expedients, which, among other things, gives the option to not reassess: 1) whether expired or existing contracts are or contain leases; 2) the lease classification for expired or existing leases; and 3) initial direct costs for existing leases. Management has evaluated the impact of the adoption of this standard and expects to record right of use assets of $440,000 and lease obligations of $454,000.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740)" ("ASU 2016-16"), which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted using a modified retrospective transition approach. The Company does not expect that the ASU will have a material impact on our financial condition or results of operations.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805) Clarifying the Definition of a Business" ("ASU 2017-01"). The amendments in ASU 2017-01 is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2018, including interim periods within annual periods beginning after December 15, 2019. The Company does not expect that the ASU will have a material impact on our financial condition or results of operations.

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In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). ASU 2018-02 allows for the reclassification of certain income tax effects related to the Tax Cuts and Jobs Act between "Accumulated other comprehensive income" and "Retained earnings." This ASU relates to the requirement that adjustments to deferred tax liabilities and assets related to a change in tax laws or rates to be included in "Income from continuing operations", even in situations where the related items were originally recognized in "Other comprehensive loss" (rather than in "Loss from operations"). ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of ASU 2018-02 is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. The Company does not expect that the ASU will have a material impact on our financial condition or results of operations.

In June 2018, the FASB issued ASU 2018-07, "Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"), which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. ASU 2018-07 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. The Company does not expect that the ASU will have a material impact on our financial condition or results of operations.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This standard aligns the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, regardless of whether they convey a license to the hosted software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by this ASU. The amendments are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact of the adoption of this guidance on its consolidated financial statements.

In October 2018, the FASB released ASU No. 2018-17, Consolidation (ASC 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities, which improves the consistency of the application of the variable interest entity (VIE) related party guidance for common control arrangements. The amendments require reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required in GAAP) when determining whether a decision-making fee is a variable interest. ASU 2018-17 will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. The amendments should be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company does not expect that the ASU will have a material impact on our financial condition or results of operations.

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4. Property and Equipment

Property and Equipment is as follows:

	December 31,	
	2018	2017
Computer hardware	$140,523	$397,528
Furniture and fixtures	42,153	216,473
Leasehold improvements	111,076	239,921
	293,752	853,922
Less: Accumulated depreciation	(210,145)	(632,738)
	$83,607	$221,184
Assets abandoned or disposed	$51,804	-

Depreciation expense for the years ended December 31, 2018 and 2017 was $92,000 and $181,000, respectively, and is recorded in depreciation and amortization expense in the accompanying consolidated statements of operations.

5. Capitalized Technology

Capitalized Technology, net is as follows:

	December 31,	
	2018	2017
Capitalized cost:		
Balance, beginning of period	$2,043,122	$1,860,558
Additional capitalized cost	119,922	182,564
Balance, end of period	$2,163,044	$2,043,122
Accumulated amortization:		

Balance, beginning of period	$1,889,741	$1,698,954
Provision for amortization	78,472	190,787
Balance, end of period	$1,968,213	$1,889,741
Capitalized Technology, net	$194,831	$153,381

Amortization expense of $2,447,372 and $2,635,400 for the years ended December 31, 2018 and 2017, respectively, is recorded in depreciation and amortization expense in the accompanying consolidated statements of operations.

6. Intangible Assets

In fourth quarter of 2018, the Company undertook a review of the carrying amount of its long-lived intangible assets. The Company performed its review based on both qualitative and quantitative factors and determined that carrying value of long-lived intangible assets exceeded its implied fair value, and as of December 31, 2018 recorded impairment charge of $2,796,000.

Intangible assets, net is as follows:

December 31, 2018	**Useful Lives (Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Long-lived intangible assets:				
Sales Process	10	$2,130,956	$(1,692,764)	$438,192
Paid Member Relationships	5	803,472	(758,972)	44,500
Member Lists	5	8,086,181	(7,638,331)	447,850
Developed Technology	3	648,000	(648,000)	-
Trade Name/Trademarks	4	440,000	(440,000)	-
		12,108,609	(11,178,067)	930,542
Indefinite-lived intangible assets:				
Trade Name				90,400
Intangible assets, net				$1,020,942

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017	**Useful Lives (Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Long-lived intangible assets:				
Sales Process	10	$3,970,000	$(1,295,764)	$2,674,236
Paid Member Relationships	5	890,000	(580,972)	309,028
Member Lists	5	8,957,000	(5,846,931)	3,110,069
Developed Technology	3	648,000	(648,000)	-
Trade Name/Trademarks	4	440,000	(359,027)	80,973
		14,905,000	(8,730,694)	6,174,306
Indefinite-lived intangible assets:				
Trade Name				90,400
Intangible assets, net				$6,264,706

Future annual estimated amortization expense is summarized as follows:

Years ending December 31,	
2019	$568,557
2020	76,207
2021	76,207
2022	76,207
Thereafter	133,364
	$930,542

	2018	2017
Impairment charge on NAPW	$2,796,391	$ -

Amortization expense of $2,802,233 and $2,868,400 for the years ended December 31, 2018 and 2017, respectively, is recorded in depreciation and amortization expense in the accompanying consolidated statements of operations.

7. Goodwill

Goodwill is summarized as follows:

	2018	2017
Balance at January 1,	$5,590,150	$20,201,190
Impairment charge on NAPW	(5,250,699)	(14,611,040)
Balance at December 31,	$339,451	$5,590,150

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Note Payable – Related Party

On November 5, 2018, the Company entered into a note purchase agreement (the "Note Purchase Agreement") with GNet Tech Holdings Public Limited Company (the "GNet Tech"), a related party through one of the Company's shareholders, Cosmic Forward Limited ("CFL"), pursuant to which the Company issued to GNet Tech a $500,000 convertible promissory note with an interest rate of 6% per annum (the "Note"). The Note shall mature six months after the date of issuance (the "Maturity Date"). Pursuant to the Note Purchase Agreement and the Note, at any time on or after the Maturity Date, at the election of the note holder, the Note will convert into the Company's common stock (the "Common Stock") at a conversion price of the lower of (i) the closing price of the Common Stock on NASDAQ immediately preceding the date of issuance or the date of conversion, as applicable, or (ii) the average closing price of the Common Stock on NASDAQ for the five trading days immediately preceding the date of issuance or the date of conversion, as applicable (the "Minimum Price"). However, in no event shall the conversion price be less than the Minimum Price on the date of issuance. The issuance of the Note is exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, as a transaction not involving a public offering.

9. Revolving Credit Facility – Related Party

On November 16, 2018, the Company entered into a revolving credit facility agreement with GNet Tech, a related party through one of the Company's shareholders, Cosmic Forward Limited ("CFL"), that matures on May 31, 2020, under which we can draw up to GBP £1,500,000 (approximately $2,000,000). Interest is payable on any outstanding principal balance at a rate equal to the LIBOR rate plus 4%. Amounts drawn under this facility are payable at the end of one, three, or six months periods at the election of the Company. At December 31, 2018, there were no outstanding amounts drawn under this facility. At April 12, 2019, approximately $1,707,000 was available for us to draw.

As of 4/12/2019, the Company has drawn down $293,000 under this facility.

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Commitments and Contingencies

Lease Obligations - The Company leases office space, a corporate apartment, office furniture and equipment under various operating lease agreements.

We lease approximately 11,454 square feet of space for our headquarters in Chicago, Illinois under a lease that expires on June 30, 2020. We also lease approximately 1,800 square feet of office space in Minnetonka, Minnesota for our Events division under a month-to-month lease.

Beginning January 1, 2017, the Company leases approximately 7,970 square feet office space in Guangzhou, China under a non-cancelable lease arrangement that provides for payments on a graduated basis through December 31, 2019.

Beginning November 15, 2017, the Company leases approximately 1,950 square feet of office space in Jiangxi Province, China under a non-cancelable lease arrangement that expires on January 30, 2020.

Rent expense, amounting to $498,232 and $904,135 for the years ended December 31, 2018 and 2017, respectively, is included in general and administrative expense in the consolidated statements of operations. Included in rent expense for the year ended December 31, 2017 is sublease income of $384,000.

Future annual minimum payments net of sublease income due under the leases are summarized as follows:

Year ending December 31,	
2019	$395,176
2020	303,995
	$699,171

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, 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. The four-count complaint in the Federal Action alleged that White Winston is entitled to recover compensatory damages of $1,708,233, plus attorneys' fees, treble damages and other amounts. White Winston served the complaint on July 12, 2018, and the Company moved to dismiss the entire action for failure to state a claim. On October 15, 2018, prior to addressing the motion to dismiss, the Court issued an order noting that White Winston (which is a limited liability company) had failed to allege the citizenship of its members and ordered White Winston to show cause that complete diversity exists between the parties and that the Court had jurisdiction. On October 23, 2018, White Winston dismissed the Federal Action without prejudice. On December 18, 2018, White Winston filed a complaint in Massachusetts Superior Court in Suffolk County in Boston alleging the same claims and rights to relief as in the Federal Action. The Company has moved to once again to dismiss the complaint in its entirety for failure to state a claim. The entire motion package, comprised of the Company's motion to dismiss and accompanying memorandum, White Winston's opposition, and the Company's reply brief, was filed with the court on Monday, March 25, 2019. The Company denies liability for all claims.

NAPW is a defendant in a Nassau County (NY) Supreme Court case, whereby TL Franklin Avenue Plaza LLC has sued NAPW with respect to NAPW's former Garden City NY Premises. NAPW had surrendered the Premises to the Landlord, and the Landlord is suing NAPW for the balance of the rent due under the Lease Term – which term is less than one year remaining. The case is currently being litigated, and we are currently in the pleadings phase of the litigation.

The Company is a party to a proceeding captioned Gerbie, et al. v. Professional Diversity Network, Inc. (U.S. Dist. Ct., N.D. Ill.), a putative class action alleging violations of the Telephone Consumer Protection Act. A settlement has been reached and case has been dismissed by the court. The Company believes that its practices and procedures were compliant with the Telephone Consumer Protection Act and admitted no fault.

NAPW and PDN are two of the named Respondents in a Superior Court of New Jersey Proceeding, and they are being sued by Shore Digital LLC. The Petitioner in this matter, Shore Digital LLC is alleging that both NAPW and PDN are in breach of contract, and the matter involves the payment of the entire value of the contract plus council feels, interest, and costs owing to the Petitioner. The case is on-going, and discussions are taking place to assess the company's options to settle the matter without further litigation.

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 in June of 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. The potential financial impact on the Company is inherently uncertain at this point.

The Company is a party to a proceeding captioned Jacqueline M. Jefferson v. Noble Voice, No. 440-2018-06979 (EEOC), filed with the Equal Employment Opportunity Commission (“EEOC”) on July 10, 2018 and alleging violations of Title VII and the Equal Pay Act of 1963, where an employee alleges she was terminated by the Company due to her age on May 25, 2018. Ms. Jefferson’s termination was as a result of the sale of the Noble Voice business on May 25, 2018. The Company and Jacqueline Jefferson are in the process of mediation.

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

11. 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").

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to a co-sale right, an existing shareholder of the Company would have the right to sell up to 205,925 shares of Common Stock to CFL as of the date of the Purchase Agreement (the “Co-Sale Right”), and such Co-Sale Right, to the extent exercised, would reduce the number of shares of Common Stock to be purchased by CFL directly from the Company. The Company also commenced a partial issuer tender offer to purchase up to 312,500 shares of Common Stock (the “Tender Offer”). The number of shares of Common Stock that CFL agreed to purchase was that amount that would allow it to hold 51% of the outstanding shares of Common Stock, determined on a fully-diluted basis, after giving effect to the number of shares of Common Stock (if any) the Company purchases in the Tender Offer, and any shares sold to CFL pursuant to the co-sale right (collectively, the “Common Shares”). The parties agreed that, if, immediately following the consummation of the Tender Offer and after giving effect to the purchase by the Company of all shares of Common Stock validly tendered and not withdrawn in the Tender Offer, the Common Shares amount to less than 51% of the then-outstanding shares of Common Stock, determined on a fully-diluted basis, then CFL shall have an option (the “Call Option”) to purchase, at a price per share equal to the Per Share Price, such additional number of shares of Common Stock (the “Call Option Shares”) as are necessary for the previously issued Common Shares plus the Call Option Shares to equal 51% of the then-outstanding shares of Common Stock determined on a fully-diluted basis, taking into account the issuance of the Call Option Shares.

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 18).

12. Employment Agreement

James Kirsch, formerly Co-Executive Chairman of the Company, was party to an employment contract with the Company dated September 24, 2014. As the Company previously reported in its March 8, 2018 Form 8-K, Mr. Kirsch tendered his resignation as Co-executive Chairman on March 6, 2018. Mr. Kirsch's decision to resign was due to his personal reasons and was not a result of any dispute with the Company. No compensation was provided in connection with his departure.

Jiangping (Gary) Xiao, formerly Chief Financial Officer of the Company, was party to an employment contract with the Company dated March 7, 2017. As the Company previously reported in its February 12, 2019 Form 8-K, Mr. Xiao tendered his resignation on February 6, 2019 as Chief Financial Officer, effective March 19, 2019. Mr. Xiao's decision to resign was due to his personal reasons and was not a result of any dispute with the Company. No compensation was provided in connection with his departure.

Jingbo (James) Song, formerly Co-Executive Chairman of the Company, was party to an employment contract with the Company dated January 12, 2017. As the Company previously reported in its February 22, 2019 Form 8-K, Mr.

Song tendered his resignation on February 20, 2019 as Executive Chairman of the Board of Directors and director of the Company, effective immediately. Also on February 20, 2019, the Board of Directors resolved to accept Mr. Song's resignation with immediate effect. Mr. Song's resignation from the Board of Directors of the Company was for personal health reasons. Mr. Song served as a valued member of the Board since November, 2016, and his decision to resign was not due to any disagreement with the Company. No compensation was provided in connection with his departure.

On March 11, 2019 (the "He Effective Date"), the Company entered into an employment agreement (the "He Employment Agreement") with Mr. He, which He Employment Agreement continues until terminated in writing by either party or earlier terminated pursuant to the provisions of the He Employment Agreement. Under the He Employment Agreement, Mr. He will receive an annual base salary of $200,000, subject to adjustment in the sole discretion of the Board or the Compensation Committee of the Board; provided however, that such annual base salary may not be decreased during Mr. He's employment period. Mr. He will be eligible to receive an annual incentive bonus in an amount equal to up to fifty percent (50%) of his base salary, based upon the achievement of one or more performance goals, targets, measurements and other factors, established for such year by the Compensation Committee. Mr. He will also participate in all benefit plans and programs, subject to certain conditions and exceptions, as are generally provided by the Company to its other senior executive employees.

13. 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.

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock – The Company has one class of common stock outstanding with a total number of shares authorized of 45,000,000. As of December 31, 2018, the Company had 4,855,165 shares of common stock outstanding.

On January 13, 2017, the Company entered into a stock purchase agreement (the "Purchase Agreement") with Cosmic Forward Ltd. ("CFL"), pursuant to which, the Company agreed to issue and sell to CFL (the "Second Share Issuance"), 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, 312,500 shares of the Company's common stock.

On December 8, 2017, Professional Diversity Network, Inc. (the "Company") sold 18,200 shares of common stock (each a "Share" and collectively the "Shares") at a price of $3.49 per Share for gross proceeds of $63,518.00. The per Share purchase price reflected a ten percent (10%) discount from the closing price of the Company's common stock on December 7, 2017.

On January 29, 2018, the Company sold 380,295 shares of common stock at a price of $3.91 per Share for gross proceeds of $1,486,953. The per Share purchase price reflected the closing price of the Company's common stock on January 24, 2018. The purchaser is Mr. Shengqi Cai, an individual and a resident of the People's Republic of China.

On June 25, 2018, the Company sold 496,510 shares of common stock at a price of $2.89 per share for gross proceeds of $1,434,914. The purchaser is China EWI International Finance Group Co., Limited, a limited liability company based in the People's Republic of China.

From January 9, 2019 to April 2, 2019, the Company sold an aggregate of 232,515 shares of its common stock at a purchase price ranging from $1.146 to $3.85 per share, representing 120% of the closing price the trading day immediately prior to the date of subscription. As of the date of this annual report, the Company has received an aggregate gross proceeds of $479,931 under this private placement. All of the purchasers are citizens of the People's Republic of China.

14. Stock-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.

Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes the Company's stock option activity for the years ended December 31, 2018 and 2017:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding – January 1, 2018	246,564	$ 11.17	9.1	$ -
Granted	253,000	2.82		
Exercised	-	-		
Forfeited or Canceled	(125)	27.6		
Outstanding – December 31, 2018	499,439	$ 6.94	9.0	$ -

Exercisable – December 31, 2018	251,272	8.49	8.8	$ -

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding – January 1, 2017	69,950	$ 12.07	9.0	$ -
Granted	240,000	10.72		
Exercised	-	-		
Forfeited or Canceled	(63,386)	(10.46)		
Outstanding – December 31, 2017	246,564	$ 11.17	9.1	$ -
Exercisable – December 31, 2017	86,564	12.00	9.0	$ -

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On April 19, 2018, the Company granted 75,000, 75,000, 70,000 and 30,000 stock options to Executive Chairman Jingbo Song, Non-executive Chairman James Kirsch, CEO Michael Wang and CFO Gary Xiao, respectively, in connection with their employment agreements. On September 7, 2018, the Company granted 3,000 stock options to an employee, in connection with his employment agreements. These options had an aggregate fair value of $54**7**,000, using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.77% to 2.82	%
Expected dividend yield	0.00	%
Expected volatility	**97.4 to 98.8**	%
Expected term	**5.4 to 5.5** years	

The April 19, 2018 options granted are exercisable at an exercise price of $2.82 per share over a ten-year term and vest over two years, with one-third vested upon grant, while the September 7, 2018 options garnted are exercisable at an exercise price of $3.07 per share over a ten-year term and vest over two years, with one-third vested upon grant

The Company recorded non-cash compensation expense of approximately $659,000 and $706,000 as a component of general and administrative expenses in the accompanying consolidated statements of operations for the years ended December 31, 2018 and 2017, respectively, pertaining to stock options.

Total unrecognized compensation expense related to unvested stock options at December 31, 2018 amounts to approximately $301,000 and is expected to be recognized over a remaining weighted average period of 1.2 years.

Warrants

As of December 31, 2018 and 2017, there were 170,314 warrants outstanding and exercisable, with a weighted average exercise price of $32.44 per share. The weighted average remaining contractual life of the warrants outstanding and exercisable at December 31, 2018 and 2017 was 2.6 and 3.3 years, respectively, and the aggregate intrinsic value was $0.

Restricted Stock

A summary of restricted stock activity for the year ended December 31, 2018 is as follows:

	Number of Shares
Unvested - December 31, 2017	15,544
Granted	60,651
Vested	(15,544)
Forfeited or Canceled	-
Unvested – December 31, 2018	60,651

On June 26, 2017, the Company granted 15,544 restricted stock units (“RSUs”) to certain Board members. The RSUs vest on June 28, 2018, subject to continued service on the vesting date. The RSUs have no voting or dividend rights. The fair value of the common stock on the date of grant was $7.72 per share, based upon the closing market price on the grant date. The aggregate grant date fair value of the combined awards amounted to $120,000.

The Company recorded non-cash compensation expense of $141,000 and $161,000 as a component of general and administrative expenses in the accompanying consolidated statements of operations for the years ended December 31, 2018 and 2017, respectively, pertaining to restricted stock.

Total unrecognized compensation expense related to unvested restricted stock at December 31, 2018 amounts to $98,000 and is expected to be recognized over a weighted average period of 0.4 year.

15. Income Taxes

The Company has the following net deferred tax assets and liabilities at December 31, 2018 and 2017:

	December 31, 2018	2017
Goodwill and intangible assets	$(183,082)	$(1,591,326)
Developed technology	(53,384)	(42,698)
Derivative liability	(113,811)	(112,149)
Property and equipment	12,140	85,351
Other deferred tax assets	44,654	47,879

Settlements	191,781	39,442
Lease liability	-	23,081
Stock based compensation	403,587	214,610
Net operating loss	6,843,840	5,536,896
Valuation allowance	(7,340,511)	(6,004,605)
Net deferred tax liability	$(194,786)	$(1,803,519)

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The benefit for income taxes for the years ended December 31, 2018 and 2017 consists of the following:

	Year Ended December 31, 2018	2017
Federal:		
Current provision	$-	$-
Deferred provision (benefit)	(1,097,974)	(1,798,585)
	(1,097,974)	(1,798,585)
State:		
Current provision	$-	$-
Deferred provision (benefit)	(307,901)	(51,170)
	(307,901)	(51,170)
Foreign:		
Current provision	$(210,177)	$104,241
Deferred provision (benefit)	-	-
	(210,177)	104,241
Income tax expense (benefit)	$(1,616,052)	$(1,745,514)

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31, 2018	2017
Expected federal statutory rate	21.0%	34.0%
State income taxes, net of federal benefit	6.4%	4.8%
Change in expected future federal tax rate	0.0%	-7.6%
Impairment charge	-8.6%	-23.6%
Valuation allowance	-8.0%	0.9%
Permanent items	0.0%	-0.1%
Rate change	0.4%	0.0%
Other	-1.5%	-1.1%
	9.7%	7.3%

The valuation allowance at December 31, 2018 was approximately $7,340,000. The net change in the valuation allowance during the year ended December 31, 2018 was an increase of approximately $1,335,000. 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 December 31, 2018.

At December 31, 2018, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $24,237,000. The federal and state net operating loss carryforwards will expire, if not utilized, beginning in 2034.

A tax benefit from uncertain tax positions may be recognized when it is more likely than not that the position that a tax position will be sustained upon examination. Management makes judgments as to the interpretation of the tax laws that may be challenged upon an audit and cause a change of tax liability. As of December 31, 2018 and 2017, the Company did not maintain a reserve for uncertain tax positions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company files tax returns in multiple jurisdictions and is subject to examination in these jurisdictions. Significant jurisdictions in the U.S. include New York, Illinois and California. In May 2016, the Company received notice that the 2014 consolidated tax return of the Company is being audited by the Internal Revenue Service. During April 2017, the Internal Revenue Service notified the Company that their audit has been completed and that no change is being made to the Company's consolidated tax return.

Section 382 of the Internal Revenue Code (Section 382) imposes a limitation on a corporation's ability to utilize net operating loss carryforwards (NOLS) if it experiences an "ownership change" as defined within the Code. In general, an ownership change may result from transactions increasing the ownership of certain shareholders in the stock of a corporation by more than 50 percentage points over a three year period. In connection with the 2016 CFL Transaction, the Company issued CFL 1,777,417 shares of common stock. The Company evaluated the ownership change pertaining to this issuance and determined that in accordance with the rules related to Section 382 and certain built in gain allowances pursuant to the Code and subsequent Internal Revenue Code Rulings and Notices, the Company did experience an ownership change that would limit the Company's ability to utilize its net operating losses. In accordance with Section 382 and certain built in gain allowances pursuant to the Code and subsequent Internal Revenue Code Rulings and Notices, utilization of the Company's NOL will be limited. An analysis has determined the limitation to be $1,800,000 annually through 2021 and $273,000 thereafter. During 2017 312,500 of shares of common stock were issued to CFL, the limitation imposed by Section 382 were reevaluated. No adjustment to the previously computed limitation is required. As a result of this ownership change, no NOL is expected to be lost and not utilized. In the event the Company experiences another ownership change in the future, the NOL may, once again, be further limited.

On December 22, 2017 the U.S. Tax Cuts and Jobs Act of 2017 ("Tax Act") was signed into law. As a result of the Tax Act, the U.S. statutory tax rate was lowered from 35% to 21% effective January 1, 2018, among other changes. ASC Topic 740 requires companies to recognize the effect of tax law changes in the period of enactment; therefore, the Company was required to revalue its deferred tax liabilities at the new rate. As a result of the reduction in the U.S. corporate income tax rate, we re-measured our ending net deferred tax liabilities at December 31, 2017 at the rate at which they are expected to reverse in the future and recognized a tax benefit of $788,000.

Additionally, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, the Company completed the provision calculations with its federal tax return.

The Tax Act provided for a one-time deemed mandatory repatriation of post-1986 undistributed foreign E&P through the year ended December 31, 2017. We had an estimated $332,000 of undistributed foreign E&P subject to the deemed mandatory repatriation, this income was offset by U.S. operating losses. As of December 31, 2018, foreign withholding taxes have not been provided on the undistributed E&P of our foreign subsidiaries as we intend to permanently reinvest these foreign earnings in those businesses outside the U.S.

Beginning in 2018, the Tax Act includes a new U.S. tax base erosion provision designed to tax the global intangible low-taxed income ("GILTI"). The GILTI provisions require us to include in our U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The Company has elected to recognize the tax on GILT as a period expense in the period the tax is incurred.

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Segment Information

Beginning on May 26, 2018, the Company operates in the following segments: (A) United States: (i) PDN Network and (ii) NAPW Network, and (B) China Operations. The segments are categorized based on their business activities and organization. Prior to May 26, 2018, the Company operated in the following segments: (A) United States: (i) PDN Network, (ii) NAPW Network, and (B) China Operations. The following tables present key financial information of the Company's reportable segments as of and for the years ended December 31, 2018 and 2017:

	Year ended December 31, 2018				
	United States				
	PDN Network	**NAPW Network**	China Operations	Corporate Overhead	Consolidated
Membership fees and related services	$-	$4,766,798	$225,152	$-	$4,991,950
Recruitment services	2,571,935	-	-	-	2,571,935
Products sales and other	-	19,239	-	-	19,239
Education and training	-	-	606,557		606,557
Consumer advertising and marketing solutions	262,946	-	-	-	262,946
Total revenues	2,834,881	4,786,037	53,599	-	8,452,627
(Loss) income from continuing operations	(150,810)	(10,775,648)	(1,615,105)	(3,612,228)	(16,153,791)
Depreciation and amortization	65,479	2,534,515	17,780	-	2,617,774
Income tax expense (benefit)	2,796	(1,004,453)	(210,177)	(351,878)	(1,563,712)
Net (loss) income from continuing operations	(135,536)	(9,771,195)	(1,404,778)	(3,260,350)	(14,571,859)
Capital expenditures	-	568	(7,369)	-	(6,802)

	At December 31, 2018				
Goodwill	$339,451	$-	$-	$-	$339,451
Intangible assets, net	90,400	930,543	-	-	1,020,943
Assets from continuing operations	1,654,346	1,970,594	1,486,891	-	5,111,831

Professional Diversity Network, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31, 2017				
	United States				
	PDN Network	NAPW Network	China Operations	Corporate Overhead	Consolidated
Membership fees and related services	$-	$9,371,843	$-	$-	$9,371,843
Recruitment services	2,578,597	-	-	-	2,578,597
Products sales and other	-	100,289	-	-	100,289
Education and training	-	-	3,776,546	-	3,776,546
Consumer advertising and marketing solutions	252,980	-	-	-	252,980
Total revenues	2,831,577	9,472,132	3,776,546	-	16,080,255
Loss from continuing operations	(265,451)	(18,428,010)	917,015	(5,491,652)	(23,268,098)
Depreciation and amortization	83,367	2,914,076	10,221	-	3,007,664
Income tax expense (benefit)	(18,490)	(1,393,055)	104,241	(380,066)	(1,687,370)
Net loss from continuing operations	(226,108)	(17,034,955)	796,108	(5,111,586)	(21,576,541)
Capital expenditures	100,823	10,646	49,793	-	161,262

	At December 31, 2017				
Goodwill	$339,451	$5,250,699	$-	$-	$5,590,150
Intangible assets, net	90,400	6,174,306	-	-	6,264,706
Assets from continuing operations	1,726,061	12,889,367	3,056,281	-	17,671,709

18. Subsequent Events

The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that the consolidated financial statements were issued for potential recognition or disclosure. Other than as described below, the Company did not identify any subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

Stock Purchase Agreement

From January 9, 2019 to April 2, 2019, the Company sold an aggregate of 232,515 shares of its common stock at a purchase price ranging from $1.146 to $3.85 per share, representing 120% of the closing price the trading day immediately prior to the date of subscription. As of the date of this annual report, the Company has received an aggregate gross proceeds of $479,931 under this private placement. All of the purchasers are citizens of the People's Republic of China.

Employment Agreement

Jiangping (Gary) Xiao, formerly Chief Financial Officer of the Company, was party to an employment contract with the Company dated March 7, 2017. As the Company previously reported in its February 12, 2019 Form 8-K, Mr. Xiao tendered his resignation on February 6, 2019 as Chief Financial Officer, effective March 19, 2019. Mr. Xiao's decision to resign was due to his personal reasons and was not a result of any dispute with the Company. No compensation was provided in connection with his departure.

Jingbo (James) Song, formerly Co-Executive Chairman of the Company, was party to an employment contract with the Company dated January 12, 2017. As the Company previously reported in its February 22, 2019 Form 8-K, Mr. Song tendered his resignation on February 20, 2019 as Executive Chairman of the Board of Directors and director of the Company, effective immediately. Also on February 20, 2019, the Board of Directors resolved to accept Mr. Song's resignation with immediate effect. Mr. Song's resignation from the Board of Directors of the Company was for personal health reasons. Mr. Song served as a valued member of the Board since November, 2016, and his decision to resign was not due to any disagreement with the Company. No compensation was provided in connection with his departure.

On March 11, 2019 (the "He Effective Date"), the Company entered into an employment agreement (the "He Employment Agreement") with Mr. He, which He Employment Agreement continues until terminated in writing by either party or earlier terminated pursuant to the provisions of the He Employment Agreement. Under the He Employment Agreement, Mr. He will receive an annual base salary of $200,000, subject to adjustment in the sole discretion of the Board or the Compensation Committee of the Board; provided however, that such annual base salary may not be decreased during Mr. He's employment period. Mr. He will be eligible to receive an annual incentive bonus in an amount equal to up to fifty percent (50%) of his base salary, based upon the achievement of one or more performance goals, targets, measurements and other factors, established for such year by the Compensation Committee. Mr. He will also participate in all benefit plans and programs, subject to certain conditions and exceptions, as are generally provided by the Company to its other senior executive employees.

ITEM 16. FORM 10-K SUMMARY.

Not applicable.

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 April 15, 2019.

PROFESSIONAL
DIVERSITY NETWORK,
INC.

By:*/s/ Maoji (Michael) Wang*
Maoji (Michael) Wang
Chief Executive Officer

POWER OF ATTORNEY

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Maoji (Michael) Wang and Xin (Adam) He, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all and any other regulatory authority, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

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

/s/ Maoji (Michael) Wang Maoji (Michael) Wang Chief Executive Officer and Chairman of the Board (principal executive officer)	April 15, 2019
/s/ Xin (Adam) He Xin (Adam) He Chief Financial Officer (principal financial officer and principal accounting officer) and Director	April 15, 2019

/s/ Star Jones Star Jones President and Director	April 15, 2019
/s/ Courtney C. Shea Courtney C. Shea Director	April 15, 2019
/s/ Hao Zhang Hao Zhang Director	April 15, 2019
/s/ Lida Fang Lida Fang Director	April 15, 2019
/s/ Michael Belsky Michael Belsky Director	April 15, 2019
/s/ Haibin Gong Haibin Gong Director	April 15, 2019

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