10-K 1 shsp_10k.htm ANNUAL REPORT

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-K

☑ **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** 001-36280

**SharpSpring, Inc.**
*(Exact name of Registrant as specified in its charter)*

| **Delaware** | **05-0502529** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. employer identification number)* |

| **5001 Celebration Pointe Avenue, Suite 410 Gainesville, FL** | **32608** |
|---|---|
| *(Address of principal executive offices)* | *(Zip Code)* |

**888-428-9605**
*(Registrant's telephone number)*

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.001 par value per share | The NASDAQ Stock Market LLC |

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

None

*(Title of class)*

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 of this Form 10-K. ☐

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

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

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant was $62,886,433 as of June 30, 2018.

As of March 4, 2019, there were 8,629,231 outstanding shares of the registrant's common stock, $.001 par value.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed in conjunction with the registrant's 2019 annual meeting of stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. The proxy statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2018.

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# PART I

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report on Form 10-K contains forward-looking statements. Forward-looking statements involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “we believe,” “we intend,” “may,” “should,” “will,” “could” and similar expressions denoting uncertainty or an action that may, will or is expected to occur in the future. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances or achievements expressed or implied by the forward-looking statements.

Examples of forward-looking statements include, but are not limited to:

- the anticipated timing of the development of future products;
- projections of costs, revenue, earnings, capital structure and other financial items;
- statements of our plans and objectives;
- statements regarding the capabilities of our business operations;
- statements of expected future economic performance;
- statements regarding competition in our market; and
- assumptions underlying statements regarding us or our business.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses;
- the ability of our agency partners to resell the SharpSpring platform to their clients;
- security breaches, cybersecurity attacks and other significant disruptions in our information technology systems;

- changes in customer demand;
- the extent to which we are successful in gaining new long-term relationships with customers or retaining existing ones and the level of service failures that could lead customers to use competitors' services;
- developments and changes in laws and regulations, including increased regulation of our industry through legislative action and revised rules and standards;
- the occurrence of hostilities, political instability or catastrophic events;and
- natural events such as severe weather, fires, floods and earthquakes or man-made or other disruptions of our operating systems, structures or equipment.

The ultimate accuracy of these forward-looking statements depends upon a number of known and unknown risks and events. We discuss our known material risks under Item 1.A “Risk Factors.” Many factors could cause our actual results to differ materially from the forward-looking statements. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

## ITEM 1. BUSINESS

### Overview

SharpSpring, Inc. (the "Company") is a cloud-based marketing technology company. The SharpSpring platform is designed to improve the way that businesses communicate with their prospects and customers to increase sales. The Company's flagship marketing automation platform uses advanced features such as web tracking, lead scoring and automated workflow to help businesses deliver the right message to the right customer at the right time. The SharpSpring platform is designed and built as a Software as Service (or SaaS) offering. We provide our products on a subscription basis, with additional fees charged if specified volume limits are exceeded by our customers.

We operate globally through SharpSpring, Inc., a Delaware corporation, and our wholly owned subsidiaries that consist of (i) SharpSpring Technologies, Inc., a Delaware corporation; (ii) InterInbox SA, a Swiss corporation; (iii) ERNEPH 2012A (Pty) Ltd., a South African limited company; (iv) ERNEPH 2012B (Pty) Ltd., a South African limited company; and (v) SMTP Holdings S.a.r.l., a Luxembourg S.a.r.l. Unless the context otherwise requires, all references to the "Company," "we," "our" or "us" and other similar terms means SharpSpring, Inc., and its subsidiaries.

### Products and Services

We provide SaaS based marketing technologies to customers around the world. Our focus is on marketing automation tools that enable customers to interact with a lead from an early stage and nurture that potential customer using advanced features until it becomes a qualified sales lead or customer. Our platform also includes customer relationship management (CRM) technology that enables a business to store, manage and optimize customer and prospect data in a cloud-based environment. Additionally, a small portion of customers utilize our SharpSpring Mail+ product, which is a subset of the full suite solution that is focused on more traditional email marketing while also including some of the advanced functionality available in our premium offering.

### Markets & Competition

Our SharpSpring product competes primarily in the marketing automation market. Based on industry reports, our growth rate and the growth rate of our competitors, we believe the market for marketing automation technology is currently growing at approximately 30% per year overall. The market for marketing automation software and related solutions is new and evolving, with high barriers to entry due to the complex nature of the technology. SharpSpring entered the market in 2014 with a highly competitive offering that achieved meaningful customer adoption in its first few years after launch. As of December 31, 2018, SharpSpring had approximately 2,100 paying customers and approximately 7,700 businesses using the platform, including agencies, agency clients and direct end user customers. We face competition from cloud-based software and SaaS companies including HubSpot, Act-On, Pardot (part of Salesforce.com), ActiveCampaign and Infusionsoft. We differentiate ourselves from the competition with the integration of specific tools designed for digital marketing agencies, and with SharpSpring's advanced features, ease of use, platform flexibility, and value compared to other competitive offerings. SharpSpring is designed as a solution for small or mid-sized businesses, but focuses on selling to marketing agencies, who serve as partners providing a distribution channel to their clients.

Since inception, the majority of our SharpSpring customers have been digital marketing agencies. A digital marketing agency is a firm that specializes in helping clients, usually small or mid-sized businesses, with their digital marketing initiatives like websites, email marketing, search engine optimization, social campaigns, pay-per-click advertising and other digital lead generation activities. We have built special tools in the SharpSpring application to allow agencies to manage their clients on the platform and optimize their efforts across their portfolio. We also have special pricing to agency customers to allow them the flexibility to resell the platform at a profit and manage their client relationships. In general, when we sell SharpSpring to an agency customer, we provide the agency with a SharpSpring license for the agency to use, plus a 3-pack of client licenses for the agency to deploy to their client base. This agency license and the pack of licenses are generally sold for a monthly recurring fee, plus an up-front onboarding fee. The agency has complete discretion over the pricing of the platform to their clients for the use, implementation and services related to SharpSpring. If an agency utilizes its pack of licenses and adds additional clients on to the platform, there is a monthly per-client fee charged to the agency based on the number of additional licenses the agency has deployed to their clients. Additionally, we charge customers for certain items if volume or transactional limits are exceeded, such as emails sent or contacts stored in the platform. In most cases, we provide support to the agency and the agency provides support to their clients on the platform, but for additional fees, we can provide product support to the agency's client directly. Our objective is to partner with the agencies to grow and expand our businesses together using the SharpSpring platform.

Approximately one-fifth of our marketing automation customers are individual businesses that have licensed SharpSpring directly without working through an agency. We refer to these customers as "Direct Customers". Similar to agency customers, Direct Customers pay a monthly subscription fee for use of the platform, plus an up-front onboarding fee. Additionally, we charge Direct Customers additional transactional charges based on usage over certain limits.

SharpSpring Mail+ was launched in 2016, as a replacement to the GraphicMail product that was acquired in 2014. SharpSpring Mail+ provides customers with an advanced email marketing and marketing automation tool. It includes traditional email campaign management solutions like design capabilities, reporting tools and list management functionality, but also includes additional features like dynamic email content and SharpSpring's visitor ID tool that are more typically found in a marketing automation solution. SharpSpring Mail+ competes with companies such as Constant Contact, iContact Corporation, The Rocket Science Group, LLC (MailChimp®), and VerticalResponse, Inc., a subsidiary of Deluxe Corporation, as well as other email and marketing automation companies. SharpSpring Mail+, and most other vendors, typically charge a monthly fee or a fee per number of emails sent and, in some cases, they have a free offering for low-volume or non-profit customers. SharpSpring Mail+'s rich feature set is the primary key market differentiator.

We are part of a constantly evolving and highly competitive marketplace. Most of our competitors have more extensive customer bases and broader customer relationships than we have and have longer operating histories and greater name recognition than we have. Additionally, some of our current and potential competitors have significantly more financial, technical, marketing and other resources than we have, and are able to devote greater resources to the development, promotion, sale and support of their products and services. Barriers to entry are relatively high in the marketing automation market due to complexity of systems.

**Sales and Marketing**

We sell our products globally, through our internal sales teams, and to a lesser extent, third party resellers. We use and rely on our own SharpSpring marketing automation platform to help our business generate leads, convert more leads to sales and monitor the effectiveness of all our marketing campaigns. Our website www.sharpspring.com serves as a lead generation source and we use a variety of other digital marketing tools and marketing campaigns to attract new customers.

Our SharpSpring product sales process involves targeting customers, completing product demos and advancing customers through our marketing and sales pipeline to conversion using our SharpSpring marketing automation product. Since SharpSpring was launched fairly recently in 2014, brand recognition today is growing, but still fairly limited. Therefore, we are more reliant on our marketing campaigns and search engine traffic to attract potential leads. Our marketing efforts to date have been nearly 100% focused on digital marketing agencies, and we have had success signing up over 1,700 marketing agency partners as of December 31, 2018. These agencies become customers and are able to resell SharpSpring to their clients, while paying increased fees to us as their client count expands beyond the base license pack. This allows the agency to provide services and first-level support for their clients, which increases their own revenues from the end client and creates a longer-lasting relationship overall between the agency and client. We also sell SharpSpring directly to end-users and have over 400 direct end user customers on the platform. The Company's sales are done primarily through internal resources, but a small number of third-party resellers were also used during 2018.

The SharpSpring Mail+ product was created in 2016 to migrate GraphicMail customers to the SharpSpring platform. Since that time, we spent limited resources marketing and selling SharpSpring Mail+ as a standalone product and we discontinued its sale to new customers during early 2018. We currently intend to continue supporting SharpSpring Mail+, but may decide to discontinue the SharpSpring Mail+ product altogether in the future. The SharpSpring Mail+ product generated approximately $391,000 of revenue during 2018.

**Customers**

As of December 31, 2018, we had over 2,100 customers for our SharpSpring product, the majority of which were marketing agencies who resell SharpSpring to their clients. Including agency partners, agency clients and direct end user clients, we had over 7,700 businesses using the SharpSpring platform as of December 31, 2018.

As of December 31, 2018, we had approximately 800 customers using our SharpSpring Mail+ product.

The vast majority of our customers are on month-to-month agreements, with a mixture of customers being charged in advance and in arrears. We have a small number of customers that prepay for longer periods, such as quarterly or annually.

We are not heavily dependent on any one customer or even a few major customers. Our user base is diverse, and the largest single customer represents approximately 1% of our aggregate revenues. The loss of any one customer would not represent a material loss of sales. We do not have any significant industry concentration in our customer base.

**Technology & Technology Suppliers**

Our SharpSpring product technology was developed internally over the past seven years. SharpSpring operates as a multi-tenant Software-as-a-service (or “SaaS”) application. SharpSpring’s key features include web tracking, customer relationship management, lead scoring and nurturing, landing pages, email technology, rule-based triggers and notifications and deep analytics to measure marketing program return on investment (ROI). In addition to our technology platform, we offer value to our customers by providing integrations with other technology platforms.

SharpSpring Mail+ is a subset of the SharpSpring technology. In early 2018, we discontinued its sale to new customers. We currently intend to continue supporting SharpSpring Mail+, but may decide to discontinue the SharpSpring Mail+ product altogether in the future.

Our platforms are hosted in third party data centers on virtual cloud-based infrastructure. During 2018, these providers included Google Compute and Amazon Web Services. These data centers use a mixture of biometric access controls, redundant power, environmental controls and secure internet connection points to ensure uptime and data security. Email sending technology is a key part of the application, and we rely on a third party to deliver our platform’s email. The Company continuously monitors our services for availability, performance and security. We rely on our data center and service providers to maintain peak operating conditions in their businesses and to quickly address issues related to their service as they arise.

**Key Performance Indicators**

In addition to financial performance, the Company measures the performance of several key performance indicators, including:

- Number of acquired customers
- Customer acquisition costs (CAC)
- Customer attrition rates
- Net revenue retention
- Expected lifetime value (LTV)

**Intellectual Property**

The Company does not have any patents, and does not have any patents in progress.

Our trade secrets include our competencies in marketing automation, web tracking, integrations, workflow and email editing.

We registered “SharpSpring” and the related logo and certain other marks as trademarks in the United States and several other jurisdictions.

We are the registered holder of a variety of domestic and international domain names that include “sharpspring”, “sharpspringmailplus”, “graphicmail” and similar variations.

**Regulation of our Business**

We must comply with several U.S. and foreign laws and regulations. In the U.S., federal legislation entitled Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, imposes certain obligations on the senders of commercial emails and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content.

The CAN-SPAM Act's main provisions include:

- prohibiting false or misleading email header information
- prohibiting the use of deceptive subject lines
- ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender, with the opt-out effective within 10 days of the request
- requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively assented to receiving the message
- requiring that the sender include a valid postal address in the email message

In addition, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult or other harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act. Additionally, some foreign jurisdictions, such as Australia, Canada and the European Union, have also enacted laws that regulate sending email, some of which are more restrictive than the CAN-SPAM Act. For example, some foreign laws prohibit sending unsolicited email unless the recipient has provided the sender advance consent to receipt of such email.

As internet commerce continues to evolve, increasing regulation by federal, state or foreign governments becomes more likely. Our business could be negatively impacted by the application of existing laws and regulations or the enactment of new laws applicable to email communications. The cost to comply with such laws or regulations could be significant and would increase our operating expenses, and we may be unable to pass along those costs to our customers in the form of increased subscription fees. In addition, federal, state and foreign governmental or regulatory agencies may decide to impose taxes on services provided over the Internet or via email. Such taxes could discourage the use of the Internet and email as a means of commercial marketing and communications, which would adversely affect the viability of our services.

Additionally, certain aspects of how our customers utilize our platform are subject to regulations in the United States, European Union and elsewhere. In recent years, U.S. and European lawmakers and regulators have expressed concern over the use of third-party cookies or web beacons for online behavioral advertising, and legislation adopted recently in the European Union requires informed consent for the placement of a cookie on a user’s device. Regulation of cookies and web beacons may lead to restrictions on our activities, such as efforts to understand users’ Internet usage. New and expanding “Do Not Track” regulations have recently been enacted or proposed that protect users’ right to choose whether or not to be tracked online. These regulations seek, among other things, to allow end users to have greater control over the use of private information collected online, to forbid the collection or use of online information, to demand a business to comply with their choice to opt out of such collection or use, and to place limits upon the disclosure of information to third party websites. These policies could have a significant impact on the operation of our marketing automation platform and could impair our attractiveness to customers, which would harm our business.

The European Union’s General Data Protection Regulation (GDPR) went into effect in May 2018 and created a data protection law framework across the EU, aiming to give citizens back the control of their personal data, while imposing strict rules on those hosting and 'processing' this data, anywhere in the world. The Regulation also introduces rules relating to the free movement of personal data within and outside the EU. SharpSpring, as a data processor, must clearly disclose any data collection, declare the lawful basis and purpose for data processing, and state how long data is being retained and if it is being shared with any third parties or outside of the European Economic Area. Data subjects have the right to request a portable copy of the data collected by a processor in a common format, and the right to have their data erased under certain circumstances. Public authorities, and businesses whose core activities center around regular or systematic processing of personal data, are required to employ a data protection officer (DPO), who is responsible for managing compliance with the GDPR. Businesses must report any data breaches within 72 hours if they have an adverse effect on user privacy. In some cases, violators of the GDPR may be fined up to €20 million or up to 4% of the annual worldwide turnover of the preceding financial year in case of an enterprise, whichever is greater.

Customers and potential customers in the healthcare, financial services and other industries are subject to substantial regulation regarding their collection, use and protection of data and may be the subject of further regulation in the future. Accordingly, these laws or significant new laws or regulations or changes in, or repeals of, existing laws, regulations or governmental policy may change the way these customers do business and may require us to implement additional features or offer additional contractual terms to satisfy customer and regulatory requirements, or could cause the demand for and sales of our marketing automation platform to decrease and adversely impact our financial results.

**Employees**

As of February 28, 2019, we have approximately 187 employees supporting our operations. Nearly all of our employees devote their full effort to the company. Our resources include 53 sales and marketing resources, 48 research and development resources, 20 general & administrative resources and 66 customer services, network and support resources. None of our employees are covered by collective bargaining agreements.

We believe that our future success will depend in part on our continued ability to attract, hire or acquire and retain qualified employees and contractors. There can be no assurance that we will be able to attract and retain such resources. If we are unsuccessful in managing the timely delivery of these services our business could be adversely affected. We believe we have good relations with our resources.

**Properties**

Our corporate headquarters is a leased office facility located in Gainesville, FL.

**Financial Information About Segments**

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision maker ("CODM"), which is the Company's chief executive officer, in deciding how to allocate resources and assess performance. The Company's CODM evaluates the Company's financial information and resources and assess the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements.

**Corporate Information**

SharpSpring, Inc. is a Delaware corporation. Its wholly owned subsidiaries consist of (i) SharpSpring Technologies, Inc., a Delaware corporation; (ii) InterInbox SA, a Swiss corporation; (iii) ERNEPH 2012A (Pty) Ltd., a South African limited company; (iv) ERNEPH 2012B (Pty) Ltd., a South African limited company; and (v) SMTP Holdings S.a.r.l., a Luxembourg S.a.r.l.

Our corporate headquarters is located at 5001 Celebration Pointe Avenue, Suite 410, Gainesville, FL 32608. Our telephone number is 888-428-9605. Our corporate website is www.sharpspring.com. The information on our website is not incorporated herein by reference and is not part of this Form 10-K Annual Report. Also, this report includes the trade names of other companies. Unless specifically stated otherwise, the use or display by us of such other parties' names and trade names in this report is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, any of these other parties.

## ITEM 1A. RISK FACTORS

### Risks Related To Our Business

***The majority of our products and services are sold pursuant to short-term subscription agreements, and if our customers elect not to renew these agreements, our revenues may decrease.***

Typically, our products and services are sold pursuant to short-term subscription agreements, which are generally one month to one year in length, with no obligation to renew these agreements. Our renewal rates may decline due to a variety of factors, including the products and services and prices offered by our competitors, new technologies offered by others, consolidation in our customer base or if some of our customers cease their operations. If our renewal rates are low or decline for any reason, or if customers renew on less favorable terms, our revenues may decrease, which could adversely affect our results of operations.

***We may not be able to scale our business quickly enough to meet our customers' growing needs, and if we are not able to grow efficiently, our operating results could be harmed.***

As usage of our marketing software grows and as customers use our solutions for more advanced relationship marketing programs, we will need to devote additional resources to improving our application architecture, integrating with third-party systems, and maintaining infrastructure performance. In addition, we will need to appropriately scale our internal business systems and our services organization, including customer support and professional services, to serve our growing customer base, particularly as our customer demographics expand over time. Any failure of or delay in these efforts could cause impaired system performance and reduced customer satisfaction. These issues could reduce the attractiveness of

our marketing software to customers, resulting in decreased sales to new customers, lower renewal rates by existing customers, the issuance of service credits, or requested refunds, which could adversely affect our revenue growth and harm our reputation. Even if we are able to upgrade our systems and expand our staff, any such expansion will be expensive and complex, requiring management time and attention. We could also face inefficiencies or operational failures as a result of our efforts to scale our infrastructure. Moreover, there are inherent risks associated with upgrading, improving and expanding our information technology systems. We cannot be sure that the expansion and improvements to our infrastructure and systems will be fully or effectively implemented on a timely basis, if at all. These efforts may reduce revenue and our margins and adversely affect our financial results.

***We rely, in large part, on our agency partners' ability to resell the SharpSpring solution to their clients and service and support their clients that are using the SharpSpring platform.***

We sell primarily to digital marketing agencies, who purchase a pack of SharpSpring licenses and resell SharpSpring to their end clients. Our agency partners typically perform various services for their clients, including website services, lead generation activities, social media services and other digital marketing services. If our agency partners are not successful in reselling SharpSpring to their clients or are not successful in supporting or servicing their active clients on the SharpSpring platform, the value of our agency partner relationships will not grow, and those agency partners will have a higher risk of attrition. If we cannot retain these agency partners as SharpSpring customers, our revenue and operating performance will be adversely impacted.

***If we fail to enhance our existing products and services or develop new products and services, our products and services may become obsolete or less competitive and we could lose customers.***

If we are unable to enhance our existing products and services or develop new products and services that keep pace with rapid technological developments and meet our customers' needs, our business will be harmed. Creating and designing such enhancements and new products entail significant technical and business risks and require substantial expenditures and lead-time, and there is no guarantee that such enhancements and new products will be completed in a timely fashion. Nor is there any guarantee that any new service offerings will gain acceptance among our customers or by the broader market. For example, our existing customers may not view any new service as complementary to our service offerings and therefore decide not to purchase such service. If we cannot enhance our existing products and services or develop new products or if we are not successful in selling such enhancements and new products to our customers, we could lose customers or have difficulty attracting new customers, which would adversely impact our financial performance.

***If we are unable to attract new customers and retain existing customers on a cost-effective basis, our business and results of operations will be adversely affected.***

To succeed, we must continue to attract and retain a large number of customers on a cost-effective basis, many of whom have not previously used the types of products and services that we offer. Our sales process involves targeting customers, completing product demos and advancing customers through our marketing and sales pipeline to conversion using our SharpSpring marketing automation product, in addition to relying on outbound marketing and search engine traffic to attract potential leads. We rely on a variety of methods to attract new customers, such as outbound emails, hosting events, paying providers of online services, search engines, directories and other websites to provide content, advertising banners and other links that direct customers to our website. If we are unable to use any of our current marketing initiatives or the cost of such initiatives were to significantly increase or such initiatives or our efforts to satisfy our existing customers are not successful, we may not be able to attract new customers or retain existing customers on a cost-effective basis and, as a result, our revenue and results of operations would be adversely affected.

***If we fail to develop our brands cost-effectively, our business may be adversely affected.***

Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful services at competitive prices. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brands. If we fail to successfully promote and maintain our brands, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brands, we may fail to attract enough new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts, and our business and results of operations could suffer.

***Email communications is a key component of our product. At times, delivery of our emails has been impaired by third party monitoring agencies and internet service providers. If the delivery of our customers' emails is limited or blocked, our product's capabilities would be severely limited, and customers may cancel their accounts.***

Many SharpSpring users aim to communicate using email with a broad range of customers and prospects. Our policies limit the use of email to recipients who have agreed to receive email from that business. However, it is often difficult to enforce the use of opt-in email lists and in some cases, our customers disregard our policies and send emails to purchased lists, which may include spam traps put in place by monitoring agencies. Those same monitoring agencies can block emails from reaching individuals that use their spam email protection services. Additionally, internet service providers (ISPs) also filter email based on email characteristics and spam complaint rates. Although we work with one of the premier email delivery providers, recent aggressive actions by monitoring agencies and ISPs make it more difficult to protect our email sending reputation and deliver our customers' emails to the recipient. We continually monitor and improve our own technology and work closely with ISPs to maintain our high deliverability rates. If third party agencies or ISPs materially limit or halt the delivery of our customers' emails, or if we fail to deliver our customers' emails in an acceptable manner, our customers may cancel their accounts.

***If we pursue future acquisitions, our inability to successfully acquire and integrate other businesses, assets, products or technologies could harm our operating results.***

We may in the future evaluate and pursue acquisitions and strategic investments in businesses, products or technologies that we believe could complement or expand our existing solutions, expand our client base and operations worldwide, enhance our technical capabilities or otherwise offer growth or cost-saving opportunities. From time to time, we may enter into letters of intent with companies with which we are negotiating potential acquisitions or investments or as to which we are conducting due diligence. Although we are currently not a party to any binding definitive agreement with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, we may enter into these types of arrangements in the future, which could materially decrease the amount of our available cash or require us to seek additional equity or debt financing. We have limited experience in successfully acquiring and integrating businesses, products and technologies. We may not be successful in negotiating the terms of any potential acquisition, conducting thorough due diligence, financing the acquisition or effectively integrating the acquired business, product or technology into our existing business and operations. Our due diligence may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired business, product or technology, including issues related to intellectual property, product quality or product architecture, regulatory compliance practices, revenue recognition or other accounting practices, or employee or customer issues.

Additionally, in connection with any acquisitions we complete, we may not achieve the synergies or other benefits we expected to achieve, and we may incur write-downs, impairment charges or unforeseen liabilities that could negatively affect our operating results or financial position or could otherwise harm our business. If we finance acquisitions using existing cash, the reduction of our available cash could cause us to face liquidity issues or cause other unanticipated problems in the future. If we finance acquisitions by issuing convertible debt or equity securities, the ownership interest of our existing stockholders may be diluted, which could adversely affect the market price of our stock. Further, contemplating or completing an acquisition and integrating an acquired business, product or technology could divert management and employee time and resources from other matters.

***Our international operations subject us to additional risks and uncertainties.***

We have customers in various international jurisdictions. Our international operations present unique challenges and risks to our Company. Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions and could interfere with our ability to offer our products and services to one or more countries or expose us or our employees to fines and penalties. These laws and regulations include, but are not limited to, tax laws, data privacy and filtering requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Violations of these laws and regulations could result in monetary damages, criminal sanctions against us, our officers, or our employees, and prohibitions on the conduct of our business. Our international operations also subject us to additional foreign currency exchange rate risks and will require additional management attention and resources. Our international operations subject us to other inherent risks, including, but not limited to:

- the impact of recessions in economies outside of the United States
- changes in and differences between regulatory requirements between countries
- U.S. and foreign export restrictions, including export controls relating to encryption technologies
- anti-SPAM laws and other laws that may differ materially from U.S. laws
- reduced protection for and enforcement of intellectual property rights in some countries

- potentially adverse tax consequences
- difficulties and costs of staffing and managing foreign operations
- political and economic instability
- international conflicts, wars or terrorism
- tariffs and other trade barriers
- seasonal reductions in business activity

Our failure to address these risks adequately could materially and adversely affect our business, revenue, results of operations, cash flows and financial condition.

***We could be materially affected by the fluctuations of the U.S. Dollar against the Euro, Swiss Franc, South African Rand or British Pound.***

In our fourth quarter of 2018, approximately 83% of our revenues are currently generated in U.S. Dollars, while approximately 17% of our revenues are denominated in other currencies including the Euro, Swiss Franc, South African Rand and British Pound. Our costs are generally incurred in similar currencies. Currency exchange rates can fluctuate dramatically, which will impact the amount of revenue we will record when translated to U.S. Dollars and will impact the amount of costs that we incur when translated to U.S. Dollars. Although our cost currencies are generally aligned to our revenue currencies, variances exist between the rate we incur costs in each currency compared to the revenue. Therefore, changes to currency rates may dramatically impact profitability.

***If we do not or cannot maintain the compatibility of our marketing software with third-party applications that our customers use in their businesses, our revenue will decline.***

The functionality and popularity of our marketing software depends, in part, on our ability to integrate our solutions with third-party applications and platforms, including CRM, event management, e-commerce, call center, and social media sites that our customers use and from which they obtain data. Third-party providers of applications and APIs may change the features of their applications and platforms, restrict our access to their applications and platforms or alter the terms governing use of their applications and APIs and access to those applications and platforms in an adverse manner. Such changes could functionally limit or terminate our ability to use these third-party applications and platforms in conjunction with our solution, which could negatively impact our offerings and harm our business. If we fail to integrate our software with new third-party applications and platforms that our customers use for marketing purposes, we may not be able to offer the functionality that our customers need, which would negatively impact our ability to generate revenue and adversely impact our business.

***The market in which we participate is competitive and, if we do not compete effectively, our operating results could be harmed.***

Our principal competitors include marketing automation companies like HubSpot, Pardot (part of Salesforce.com) and Act-On. Companies can also utilize various point solutions to provide individual marketing capabilities for things like email campaigns, landing pages, forms and analytics, which are all features in a marketing automation solution. Competition could result in reduced sales, reduced margins or the failure of our products to achieve or maintain more widespread market acceptance, any of which could harm our business.

Our current and potential competitors may have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their products. Our current and potential competitors may have more extensive customer bases and broader customer relationships than we have. In addition, these companies may have longer operating histories and greater name recognition than we have and may be able to bundle products with other products that have gained widespread market acceptance. These competitors may be better able to respond quickly to new technologies and to undertake more extensive marketing campaigns. If we are unable to compete with such companies, the demand for our products could substantially decline.

***Our business is substantially dependent on continued demand for marketing and email technology and any decrease in demand could cause us to suffer a decline in revenues and profitability.***

We derive, and expect to continue to derive, substantially all of our revenue from organizations, including marketing agencies and small and medium size businesses, associations and non-profits. As a result, widespread acceptance of marketing technology among small and medium size organizations is critical to our future growth and success. The overall market for marketing automation technology is relatively new and still evolving, and small organizations have generally been slower than larger organizations to adopt email marketing as part of their marketing mix. There is no certainty regarding how or whether this market will develop, or whether it will experience any significant contractions. Our ability to attract and retain customers will depend in part on our ability to make marketing communications convenient, effective and affordable. If small and medium size organizations determine that marketing technology and communication does not sufficiently benefit them, existing customers may cancel their accounts and potential customers may decide not to utilize our services.

***We are a small public company and the requirements of being a public company are a strain on our systems and resources, are a diversion to management's attention and are costly.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934 (Exchange Act) the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and the rules and regulations of The NASDAQ Stock Market. The requirements of these rules and regulations increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly and may also place strain on our personnel, systems and resources.

The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing the costly process of implementing and testing our systems to report our results as a public company, to continue to manage our growth and to implement internal controls. We are and will continue to be required to implement and maintain various other control and business systems related to our equity, finance, treasury, information technology, other recordkeeping systems and other operations. As a result of this implementation and maintenance, management's attention may be diverted from other business concerns, which could adversely affect our business.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

We expect these laws, rules and regulations to make it more difficult and more expensive for us to continue obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain appropriate levels of coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

As a result of being a public company, our business and financial condition is more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the time and resources of our management and adversely affect our business and operating results.

***We may be subject to additional obligations to collect and remit sales tax and other taxes, and we may be subject to tax liability for past sales, which could harm our business.***

State, local and foreign jurisdictions have differing rules and regulations governing sales, use, value added and other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of such taxes to SaaS products in various jurisdictions is unclear. Further, these jurisdictions' rules regarding tax nexus vary significantly and are complex. As such, we could face possible tax assessments and audits. A successful assertion, by any of these taxing authorities, that we should be collecting additional sales, use, value added or other taxes in jurisdictions where we have not historically done so and do not accrue for such taxes could result in tax liabilities and related penalties for past sales, discourage customers from purchasing our products or otherwise harm our business and operating results.

## Risks Related To Our Management

***If we fail to retain our key personnel, we may not be able to achieve our anticipated level of growth and our business could suffer.***

Our future depends, in part, on our ability to attract and retain key personnel. Our future also depends on the continued efforts and abilities of our executive officers, including our Chief Executive Officer and other key personnel, each of whom would be difficult to replace. In particular, Richard Carlson, our Chief Executive Officer and President and Travis Whitton, our Chief Technology Officer, are critical to the Company's strategic direction and product development process. The loss of the services of Messrs. Carlson, Whitton or other key personnel, and the process to replace any of our key personnel, would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives. We currently do not maintain key person life insurance on any of our executives. Accordingly, the loss of the services of any of these persons would adversely affect our business.

***Our anticipated growth in our operations could place a significant strain on our management team and our administrative, operational and financial reporting infrastructure.***

Our success will depend in part on the ability of our management team to effectively manage our growth in our operations. To do so, we believe we will need to continue to hire, train and manage new employees as needed. If our new hires perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or if we are not successful in retaining our existing employees, our business may be harmed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational and financial controls and update our reporting procedures and systems. The expected addition of new employees and the capital investments that we anticipate will be necessary to manage our anticipated growth will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our anticipated growth, our business operations could be adversely affected.

***A material weakness in internal controls may remain undetected for a longer period because of our Company's exemption from the auditor attestation requirements under Section 404(b) of Sarbanes-Oxley.***

Our annual report does not include an attestation report of the Company's independent 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 Securities and Exchange Commission that permit the Company to provide only management's attestation in its annual report. As a result, a material weakness in our internal controls may, should any occur, remain undetected for a longer period.

## Risks Related To Our Systems

***Our customers' use of our products to transmit negative messages or website links to harmful applications could damage our reputation, and we may face liability for unauthorized, inaccurate or fraudulent information distributed via our services.***

Although it is against our terms and conditions, our customers could use our email servers to transmit negative messages or website links to harmful applications, reproduce and distribute copyrighted material without permission, or report inaccurate or fraudulent data or information. Any such use of our products could damage our reputation and we could face claims for damages, copyright or trademark infringement, defamation, negligence or fraud. Moreover, our customers' promotion of their products and services through our email marketing product may not comply with federal, state and foreign laws. We cannot predict whether our role in facilitating these activities would expose us to liability under these laws.

Even if claims asserted against us do not result in liability, we may incur substantial costs in investigating and defending such claims. If we are found liable for our customers' activities, we could be required to pay fines or penalties, redesign business methods or otherwise expend resources to remedy any damages caused by such actions and to avoid future liability.

***Various private spam blacklists have in the past interfered with, and may in the future interfere with, the effectiveness of our products and our ability to conduct business.***

Our customers rely on email to communicate with their constituents and we depend on email to market to and communicate with our customers. Various private entities attempt to regulate the use of email for commercial solicitation. These entities often advocate standards of conduct or practice that significantly exceed current legal requirements and classify certain email solicitations that comply with current legal requirements as spam. Some of these entities maintain “blacklists” of companies and individuals, and the websites, ISPs and internet protocol addresses associated with those entities or individuals that do not adhere to those standards of conduct or practices for commercial email solicitations that the blacklisting entity believes are appropriate. If a company’s internet protocol addresses are listed by a blacklisting entity, emails sent from those addresses may be blocked if they are sent to any Internet domain or Internet address that subscribes to the blacklisting entity’s service or purchases its blacklist. Although we have not owned the internet protocol addresses we utilize since the sale of the SMTP product, blacklisting of the internet protocol addresses that the company uses could materially impact our sending ability.

***Our facilities and systems are vulnerable to natural disasters and other unexpected events and any of these events could result in an interruption of our ability to execute clients’ email campaigns.***

While we have established contingency plans for certain potential disasters, it is possible that an unexpected disaster may occur, which could interrupt our ability to provide services. We also depend on the efficient and uninterrupted operations of our third-party data centers and hardware systems. The data centers and hardware systems are vulnerable to damage from earthquakes, tornados, hurricanes, fire, floods, power loss, telecommunications failures and similar events. If any of these events results in damage to our facilities or third-party data centers or systems, we may be unable to operate our services until the damage is repaired, and may accordingly lose clients and revenues. In addition, subject to applicable insurance coverage, we may incur substantial costs in repairing any damage.

***System failures could reduce the attractiveness of our service offerings, which could cause us to suffer a decline in revenues and profitability.***

The satisfactory performance, reliability and availability of the technology and the underlying network infrastructure are critical to our operations, level of client service, reputation and ability to attract and retain clients. We have experienced periodic interruptions, affecting all or a portion of our systems, which we believe will continue to occur from time to time. We are not aware of any loss of customers due to material service interruptions. However, any systems damage or interruption that impairs our ability to accept and fill client orders could result in an immediate loss of revenue to us, and could cause some clients to purchase services offered by our competitors. In addition, frequent systems failures could harm our reputation. Some factors that could lead to interruptions in customer service include: operator negligence; improper operation by, or supervision of, employees; physical and electronic break-ins; misappropriation; computer viruses and similar events; power loss; computer systems failures; and Internet and telecommunications failures. Our business interruption insurance may not be sufficient to fully compensate us for losses that may occur.

***Any significant disruption in service on our websites or in our computer systems, or in our customer support services, could reduce the attractiveness of our products and result in a loss of customers.***

The satisfactory performance, reliability and availability of our technology and our underlying network infrastructure are critical to our operations, level of customer service, reputation and ability to attract new customers and retain existing customers. Our production system hardware and the disaster recovery operations for our production system hardware are co-located in third-party hosting facilities. None of the companies who host our systems guarantee that our customers’ access to our products will be uninterrupted, error-free or secure. Our operations depend on their ability to protect their and our systems in their facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality, temperature, humidity and other environmental concerns, computer viruses or other attempts to harm our systems, criminal acts and similar events. In the event that our arrangements with third-party data centers are terminated, or there is a lapse of service or damage to their facilities, we could experience interruptions in our service as well as delays and additional expense in arranging new facilities. Any interruptions or delays in access to our services, whether as a result of a third-party error, our own error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with customers and our reputation. Also, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors could damage our brand and reputation, divert our employees’ attention, reduce our revenue, subject us to liability and cause customers to cancel their accounts, any of which could adversely affect our business, financial condition and results of operations.

***We rely on third-party cloud computing services that we do not control could cause errors or failures of our service, which could cause us to suffer a decline in revenues and profitability.***

We rely on cloud computing services from third parties that we do not control in order to offer our products, including Google Compute, Amazon Web Services, and others. If we lose the right to use these services or the service malfunctions, our customers could experience delays or be unable to access our services until we can obtain and integrate equivalent technology or a repair is made. Any delays or failures associated with our services could upset our customers and harm our business.

***If we are unable to protect the confidentiality of our unpatented proprietary information, processes and know-how and our trade secrets, the value of our technology and services could be adversely affected.***

We rely upon unpatented proprietary technology, processes and know-how and trade secrets. We do not currently have any patents for our proprietary technology and do not have plans to file for patent protection currently. Further, even if we file for patent protection, there is no assurance that it will be approved by the US Patent and Trademark Office. Although we try to protect this information in part by executing confidentiality agreements with our employees, consultants and third parties, such agreements may offer only limited protection and may be breached. Any unauthorized disclosure or dissemination of our proprietary technology, processes and know-how or our trade secrets, whether by breach of a confidentiality agreement or otherwise, may cause irreparable harm to our business, and we may not have adequate remedies for any such breach. In addition, our trade secrets may otherwise be independently developed by our competitors or other third parties. If we are unable to protect the confidentiality of our proprietary information, processes and know-how or our trade secrets are disclosed, the value of our technology and services could be adversely affected, which could negatively impact our business, financial condition and results of operations.

***Our use of open source software could impose limitations on our ability to commercialize our products, which could cause us to suffer a decline in revenues and profitability.***

Customizations to open source software code generally require developers to make their work available at no cost. Since we have created our software by developing extensions which plug into open source software without modifying the open source code, we do not believe there is a risk we could be required to offer our products or make our source code available. Although we monitor our use of open source software closely, the terms of many open source licenses to which we are subject have not been interpreted by United States or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue sales of our products, or to release our software code under the terms of an open source license, any of which could materially adversely affect our business.

Given the nature of open source software, there is also a risk that third parties may assert copyright and other intellectual property infringement claims against us based on our use of certain open source software programs. The risks associated with intellectual property infringement claims are discussed immediately below.

***If a third party asserts that we are infringing its intellectual property, whether successful or not, it could subject us to costly and time-consuming litigation or require us to obtain expensive licenses, and our business may be adversely affected.***

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. Third parties may assert patent and other intellectual property infringement claims against us in the form of lawsuits, letters or other forms of communication. These claims, whether or not successful, could:

- divert management’s attention;
- result in costly and time-consuming litigation;
- require us to enter into royalty or licensing agreements, which may not be available on acceptable terms, or at all;
- in the case of open source software-related claims, require us to release our software code under the terms of an open source license; or
- require us to redesign our software and services to avoid infringement.

As a result, any third-party intellectual property claims against us could increase our expenses and adversely affect our business. In addition, many of our agreements with our agency partners require us to indemnify them for third-party intellectual property infringement claims, which would increase the cost to us resulting from an adverse ruling on any such claim. Even if we have not infringed any third parties' intellectual property rights, we cannot be sure our legal defenses will be successful, and even if we are successful in defending against such claims, our legal defense could require significant financial resources and management time. Finally, if a third party successfully asserts a claim that our products infringe its proprietary rights, royalty or licensing agreements might not be available on terms we find acceptable or at all and we may be required to pay significant monetary damages to such third party.

***If the security of our customers' confidential information stored in our systems is breached or otherwise subjected to unauthorized access, our reputation may be severely harmed, we may be exposed to liability and we may lose the ability to offer our customers a credit card payment option.***

Our system stores our customers' proprietary email distribution lists, credit card information and other critical data. Any accidental or willful security breaches or other unauthorized access could expose us to liability for the loss of such information, adverse regulatory action by federal and state governments, time-consuming and expensive litigation and other possible liabilities as well as negative publicity, which could severely damage our reputation. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our software are exposed and exploited, and, as a result, a third party obtains unauthorized access to any of our customers' data, our relationships with our customers will be severely damaged, and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, we and our third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our data security measures. Any security breach, whether actual or perceived, would harm our reputation, and we could lose customers and fail to acquire new customers.

If we fail to maintain our compliance with the data protection policy documentation standards adopted by the major credit card issuers, we could lose our ability to offer our customers a credit card payment option. Any loss of our ability to offer our customers a credit card payment option would make our products less attractive to many small organizations by negatively impacting our customer experience and significantly increasing our administrative costs related to customer payment processing.

***We may be the subject of intentional cyber disruptions and attacks.***

We expect to be an ongoing target of attacks specifically designed to impede the performance of our products. Experienced computer programmers, or hackers, may attempt to penetrate our network security or the security of our data centers and IT environments. These hackers, or others, which may include our employees or vendors, may cause interruptions of our services. Although we continually seek to improve our countermeasures to prevent and detect such incidents, if these efforts are not successful, our business operations, and those of our customers, could be adversely affected, losses or theft of data could occur, our reputation and future sales could be harmed, governmental regulatory action or litigation could be commenced against us and our business, financial condition, operating results and cash flow could be materially adversely affected.

## Risks Related To Our Industry

***Existing federal, state and foreign laws regulate Internet tracking software, the senders of commercial emails and text messages, website owners and other activities, and could impact the use of our marketing tools and potentially subject us to regulatory enforcement or private litigation.***

Certain aspects of how our customers utilize our marketing tools are subject to regulations in the United States, European Union and elsewhere. New and expanding "Do Not Track" regulations have recently been enacted or proposed that protect users' right to choose whether or not to be tracked online. These regulations seek, among other things, to allow consumers to have greater control over the use of private information collected online, to forbid the collection or use of online information, to demand a business to comply with their choice to opt out of such collection or use, and to place limits upon the disclosure of information to third party websites. These policies could have a significant impact on the operation of our marketing software and could impair our attractiveness to customers, which would harm our business.

Customers and potential customers in the healthcare, financial services and other industries are subject to substantial regulation regarding their collection, use and protection of data and may be the subject of further regulation in the future. Accordingly, these laws or significant new laws or regulations or changes in, or repeals of, existing laws, regulations or governmental policy may change the way these customers do business and may require us to implement additional features or offer additional contractual terms to satisfy customer and regulatory requirements, or could cause the demand for and sales of our marketing software to decrease and adversely impact our financial results.

In addition, U.S., state and foreign jurisdictions are considering and may in the future enact legislation or laws restricting the ability to conduct marketing activities in mobile, social and web channels. Any of the foregoing existing or future restrictions could require us to change one or more aspects of the way we operate our business, which could impair our ability to attract and retain customers, or increase our operating costs or otherwise harm our business. We may be unable to pass along those costs to our customers in the form of increased subscription fees.

While these laws and regulations generally govern our customers' use of our marketing tools, we may be subject to certain laws as a data processor on behalf of, or as a business associate of, our customers. For example, these laws and regulations governing the collection, use and disclosure of personal information include, in the United States, rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, the Gramm-Leach-Bliley Act of 1999 and state breach notification laws, and internationally, the General Data Protection Regulation in the European Union and the Federal Data Protection Act in Germany. If we were found to be in violation of any of these laws or regulations as a result of government enforcement or private litigation, we could be subjected to civil and criminal sanctions, including both monetary fines and injunctive action that could force us to change our business practices, all of which could adversely affect our financial performance and significantly harm our reputation and our business.

***Privacy concerns and consumers' acceptance of Internet behavior tracking may limit the applicability, use and adoption of our marketing software.***

Privacy concerns may cause consumers to resist providing the personal data necessary to allow our customers to use our services effectively. We have implemented various features intended to enable our customers to better protect consumer privacy, but these measures may not alleviate all potential privacy concerns and threats. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our services in certain industries. In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. There are numerous lawsuits in process against various technology companies that collect and use personal information. If those lawsuits are successful, it could impact the way we conduct our business and adversely affect our financial results. The costs of compliance with, and other burdens imposed by, the foregoing laws, regulations, policies and actions may limit the use and adoption of our cloud-based marketing software and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance or loss of any such action.

***Evolving regulations concerning data privacy may restrict our customers' ability to solicit, collect, process and use data necessary to conduct email campaigns or to analyze the results or may increase their costs, which could harm our business.***

Federal, state and foreign governments have enacted, and may in the future enact, laws and regulations concerning the solicitation, collection, processing or use of consumers' personal information. Such laws and regulations may require companies to implement privacy and security policies, permit users to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal information for certain purposes. Other proposed legislation could, if enacted, prohibit the use of certain technologies that track individuals' activities on web pages or that record when individuals click through to an Internet address contained in an email message. Such laws and regulations could restrict our customers' ability to collect and use email addresses, page viewing data, and personal information, which may reduce demand for our products. They may also negatively impact our ability to effectively market our products.

***The growth of the marketing automation market depends partially on the continued growth and effectiveness of anti-spam products, which may be insufficient to enable us to offer our services at a profit.***

Adoption and retention of email as a communications medium depends on the ability to prevent junk mail, or "spam," from overwhelming a subscriber's electronic mailbox. In recent years, many companies have evolved to address this issue and filter unwanted messages before they reach customers' mailboxes. In response, spammers have become more sophisticated and have also begun using junk messages as a means for fraud. Email protection companies in turn have evolved to address this new threat. However, if their products fail to be effective against spam, adoption of email as a communications tool will decline, which would adversely affect the market for our services.

***Another economic downturn could negatively affect the business sector, which may cause our customers to terminate existing accounts with us or cause potential customers to fail to purchase our products, resulting in a decrease in our revenue and impairing our ability to operate profitably.***

Our email services are designed specifically for small and medium size organizations, including small and medium size businesses, associations and non-profits that frequently have limited budgets and may be more likely to be significantly affected by economic downturns than their larger, more established counterparts. Small organizations may choose to spend the limited funds that they have on items other than our products and may experience higher failure rates. Moreover, if small organizations experience economic hardship, they may be unwilling or unable to expend resources on marketing, including email marketing, which would negatively affect the overall demand for our products, increase customer attrition and could cause our revenue to decline. In addition, we have limited experience operating our business during an economic downturn. Accordingly, we do not know if our current business model will continue to operate effectively during an economic downturn. Furthermore, we are unable to predict the likely duration and severity of potential adverse economic conditions in the U.S. and other countries, but the longer the duration the greater risks we face in operating our business. There can be no assurance, therefore, that worsening economic conditions, or a prolonged or recurring recession, will not have a significant adverse impact on our operating and financial results.

***U.S. federal legislation entitled Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 imposes certain obligations on the senders of commercial emails, which could minimize the effectiveness of our email marketing product, and establishes financial penalties for non-compliance, which could increase the costs of our business.***

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, establishes certain requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. The CAN-SPAM Act, among other things, obligates the sender of commercial emails to provide recipients with the ability to opt out of receiving future emails from the sender. In addition, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult or other harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act. The ability of our customers' constituents to opt out of receiving commercial emails may minimize the effectiveness of our email marketing product. Moreover, non-compliance with the CAN-SPAM Act carries significant financial penalties. If we were found to be in violation of the CAN-SPAM Act, applicable state laws not preempted by the CAN-SPAM Act, or foreign laws regulating the distribution of commercial email, whether as a result of violations by our customers or if we were deemed to be directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our business. We also may be required to change one or more aspects of the way we operate our business, which could impair our ability to attract and retain customers or increase our operating costs.

***As Internet commerce develops, federal, state and foreign governments may adopt new laws to regulate Internet commerce, which may negatively affect our business.***

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign governments becomes more likely. Our business could be negatively impacted by the application of existing laws and regulations or the enactment of new laws applicable to email communications. The cost to comply with such laws or regulations could be significant and would increase our operating expenses, and we may be unable to pass along those costs to our customers in the form of increased subscription fees. In addition, federal, state and foreign governmental or regulatory agencies may decide to impose taxes on services provided over the Internet or via email. Such taxes could discourage the use of the Internet and email as a means of commercial marketing and communications, which would adversely affect the viability of our services.

## Risks Related To Owning Our Securities

***We have a history of losses and do not expect to achieve profitability in the future.***

We generated a net loss from operations of approximately $8.9 million in 2018. We will need to generate and sustain increased revenue levels in future periods to become profitable, and, even if we do, we may not be able to maintain or increase our level of profitability. We intend to continue to expend significant funds to expand and grow our marketing automation platform and obtain new customers. Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenue enough to offset higher operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this Annual Report on Form 10-K, and unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of our common stock may significantly decrease.

***We may need additional capital in the future, which may not be available to us on favorable terms, or at all, and may dilute your ownership of our common stock.***

We have historically relied on outside financing and cash from operations to fund our operations, capital expenditures and expansion. Although the issuance of convertible notes in 2018 provided the Company with additional capital, we may require additional capital from equity or debt financing in the future to:

- fund our operations;
- respond to competitive pressures;
- take advantage of strategic opportunities, including more rapid expansion of our business or the acquisition of complementary products, technologies or businesses; and
- develop new products or enhancements to existing products.

We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we raise additional funds through issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our Company, and any new securities we issue could have rights, preferences and privileges senior to those of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited.

***We may expand through acquisitions of, or investments in, other companies or through business relationships, all of which may result in additional dilution to our stockholders and consumption of resources that are necessary to sustain our business.***

One of the strategies available to us to grow our business would be to acquire competing or complementary services, technologies or businesses. We also may enter into relationships with other businesses in order to expand our service offerings, which could involve preferred or exclusive licenses, additional channels of distribution or discount pricing or investments in other companies.

In connection with one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities;
- encounter difficulties retaining key employees of the acquired company or integrating diverse business cultures;
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges; and
- encounter unfavorable reactions from investment banking market analysts who disapprove of our completed acquisitions.

***Our board of directors has the authority, without stockholder approval, to issue preferred stock with terms that may not be beneficial to existing common stockholders and with the ability to affect adversely stockholder voting power and perpetuate their control over us.***

Our certificate of incorporation allows us to issue shares of preferred stock without any vote or further action by our stockholders. Our board of directors has the authority to fix and determine the relative rights and preferences of preferred stock. Our board of directors also has the authority to issue preferred stock without further stockholder approval, including large blocks of preferred stock. As a result, our board of directors could authorize the issuance of a series of preferred stock that would grant to holders thereof the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock or other preferred stockholders and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock or existing preferred stock, if any.

Preferred stock could be used to dilute a potential hostile acquirer. Accordingly, any future issuance of preferred stock or any rights to purchase preferred stock may have the effect of making it more difficult for a third party to acquire control of us. This may delay, defer or prevent a change of control or an unsolicited acquisition proposal. The issuance of preferred stock also could decrease the amount of earnings attributable to, and assets available for distribution to, the holders of our common stock and could adversely affect the rights and powers, including voting rights, of the holders of our common stock and preferred stock.

***A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline and may impair our ability to raise capital in the future.***

Our common stock is traded on The NASDAQ Capital Market and, despite certain increases of trading volume from time to time, our common stock is considered "thinly-traded," meaning that the number of persons interested in trading our common stock at any given time may be relatively small or non-existent. Finance transactions resulting in a large amount of newly issued shares that become readily tradable, or other events that cause current stockholders to sell shares, could place downward pressure on the trading price of our stock. The lack of a robust resale market may require a stockholder who desires to sell a large number of shares of common stock to sell the shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock.

If our stockholders sell, or the market perceives that our stockholders intend to sell for various reasons, including the ending of restriction on resale, substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options or warrants, the market price of our common stock could fall. Sales of a substantial number of shares of our common stock may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. We may become involved in securities class action litigation that could divert management's attention and harm our business.

***Our amended certificate of incorporation and bylaws, and certain provisions of Delaware corporate law, as well as certain of our contracts, contain provisions that could delay or prevent a change in control even if the change in control would be beneficial to our stockholders.***

Delaware law, as well as our amended certificate of incorporation and bylaws, contains anti-takeover provisions that could delay or prevent a change in control of our Company, even if the change in control would be beneficial to our stockholders.

These provisions could lower the price that future investors might be willing to pay for shares of our common stock. These anti-takeover provisions:

- authorize our board of directors to create and issue, without stockholder approval, preferred stock, thereby increasing the number of outstanding shares, which can deter or prevent a takeover attempt;
- prohibit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- empower our board of directors to fill any vacancy on our board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- provide that our board of directors is expressly authorized to adopt, amend or repeal our bylaws; and
- provide that our directors will be elected by a plurality of the votes cast in the election of directors.

Section 203 of the Delaware General Corporation Law, the terms of our employee stock option agreements and other contractual provisions may also discourage, delay or prevent a change in control of our Company. Section 203 generally prohibits a Delaware corporation from engaging in a business combination with an interested stockholder for three years after the date the stockholder became an interested stockholder. Our employee stock option agreements include change-in-control provisions that allow us to grant options or stock purchase rights that may become vested immediately upon a change in control. The terms of change of control provisions contained in certain of our senior executive employee agreements may also discourage a change in control of our Company. Our board of directors also has the power to adopt a stockholder rights plan that could delay or prevent a change in control of our Company even if the change in control is generally beneficial to our stockholders. These plans, sometimes called "poison pills," are oftentimes criticized by institutional investors or their advisors and could affect our rating by such investors or advisors. If our board of directors adopts such a plan, it might have the effect of reducing the price that new investors are willing to pay for shares of our common stock.

Together, these charter, statutory and contractual provisions could make the removal of our management and directors more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock. Furthermore, the existence of the foregoing provisions, as well as the significant common stock beneficially owned by our founder, executive officers, and members of our board of directors, could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our Company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

***Our quarterly results may fluctuate and if we fail to meet the expectations of analysts or investors, our stock price could decline substantially.***

Our quarterly operating results may fluctuate, and if we fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock could decline. Some of the important factors that could cause our revenue and operating results to fluctuate from quarter to quarter include:

- our ability to retain existing customers, attract new customers and satisfy our customers' requirements;
- general economic conditions;
- changes in our pricing policies;
- our ability to expand our business;
- our ability to successfully integrate our acquired businesses;
- new product and service introductions;
- technical difficulties or interruptions in our services;
- the timing of additional investments in our hardware and software systems;
- regulatory compliance costs;
- costs associated with future acquisitions of technologies and businesses; and
- extraordinary expenses such as litigation or other dispute-related settlement payments.

Some of these factors are not within our control, and the occurrence of one or more of them may cause our operating results to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful and should not be relied upon as an indication of future performance.

***Our common stock is subject to volatility.***

We cannot assure you that the market price for our common stock will remain at its current level, and a decrease in the market price could result in substantial losses for investors. The market price of our common stock may be significantly affected by one or more of the following factors:

- announcements or press releases relating to our industry or to our own business or prospects;
- regulatory, legislative, or other developments affecting us or our industry generally;
- sales by holders of restricted securities pursuant to effective registration statements or exemptions from registration; and
- market conditions specific to our company, our industry and the stock market generally.

***If securities or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.***

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We currently have two independent research analysts covering our stock and may not obtain additional research coverage by securities and industry analysts. If no additional securities or industry analysts commence coverage of us, the trading price for our common stock could be negatively affected. In the event any analyst who covers us downgrades our securities, the price of our securities would likely decline. If one or more of these analysts ceases to cover us or fails to publish regular reports on us, interest in the purchase of our securities could decrease, which could cause the price of our common stock and its trading volume to decline.

**Risks Related to our Convertible Notes**

On March 28, 2018, the Company issued $8.0 million aggregate principal amount of convertible notes (the "Notes"). Interest accrues at a rate of 5.0% per year and is "payable in kind" annually in the form of the issuance of additional notes ("PIK Notes"). The aggregate principal amount of the Note and the PIK Notes will be due and payable in full on the fifth anniversary of the date of the Notes if the Notes are not converted earlier.

***If the Notes are converted, the Company will issue a significant number of shares of common stock, and the ownership interests of existing stockholders will be significantly diluted.***

The holder of the Notes may convert the Notes into shares of the Company's common stock at any time prior to maturity at a fixed conversion price of $7.50 per share. If the Notes are converted by the holder, a minimum of 1,107,240 new shares of the Company's common stock will be issued (as of December 31, 2018) and the ownership interest of existing stockholders will be significantly diluted. The number of shares to be issued upon conversion of the Notes will increase over time with the issuance of additional PIK Notes, which will increase the potential dilution of the ownership interests of existing stockholders.

***Under certain circumstances, the Company will be required to register with the SEC the resale of shares of common stock issued upon conversion of the Notes, which may not be aligned with Company priorities or the interests of other stockholders.***

If the Notes are converted into shares of the Company's common stock, if the Company elects to repay the Notes with shares of common stock, or under other specified circumstances, the holder of the Notes (or the underlying shares) will be entitled to demand and piggyback registration rights with respect to resales of the shares. These rights may adversely affect the market for and the market price of the Company's common stock, the Company's ability to raise capital in the future to fund working capital, capital expenditures, acquisitions, general corporate or other purposes, or the timing or terms of any such capital raise.

***If the Notes are not converted by the holder prior to maturity, we will be required to repay the aggregate principal amount of the outstanding Notes, including the accrued PIK Notes, and it is likely that shareholders will experience significant dilution if that occurs.***

If the Notes are not converted prior to maturity by the holder, the Company will have the option to:

- Repay the aggregate principal amount of the outstanding Notes, including accrued PIK Notes, in cash;
- Repay the aggregate principal amount of the outstanding Notes, including accrued PIK Notes, by issuing shares of the Company's common stock at value equal to 80% of the volume weighted average share price over the preceding 30-trading day period; or
- Extend the maturity of the Notes for up to eighteen months at an increased interest rate of 10.0%.

Assuming all of the Notes, including accrued PIK Notes, remain outstanding at maturity, the aggregate principal amount would equal approximately $10.2 million. Based on the current cash balance and projected net uses of cash in the future, it is highly unlikely that the Company would be able to repay the aggregate principal amount at maturity in cash without securing additional capital or other financing. Such additional financing may not be available on favorable terms, or at all. Any additional equity financing, or the repayment of

the Notes by issuing shares of common stock, may be dilutive to the ownership interests of existing stockholders and may adversely affect the market for and the market price of the Company's common stock, and other forms of financing could increase the Company's debt balance and result in significant expense to the Company.

***Our level of indebtedness may limit our financial flexibility.***

The Company's indebtedness may affect its operations in several ways, including:

- The Company may be at a competitive disadvantage compared to similar companies that have less debt;
- The Notes limit the Company's ability to incur senior secured debt in excess of 18.6% of the Company's trailing 12-month revenues; and
- Additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and contain restrictive covenants or may not be available to us.

These factors and other factors that could affect the Company's ability to obtain additional financing, some of which may be beyond the Company's control, could adversely affect the Company's ability to take advantage of strategic opportunities that might otherwise benefit the Company, and could make the Company less attractive to potential acquirers.

***The Notes contain a "make whole" provision that provides for the PIK Notes to accelerate and be paid through maturity upon a change in control of the Company, which would increase the cost of acquiring the Company and which could, in turn, make the Company less attractive to potential acquirers.***

The Notes provide for an acceleration of interest through maturity upon a change in control, which will have the effect of increasing the cost to a third party of acquiring the Company. This could make the Company less attractive to potential acquirers or decrease the amount that a potential acquirer would be willing to pay for shares of the Company's common stock, potentially preventing, or decreasing the consideration payable to the Company's stockholders in, a change of control transaction.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None

## ITEM 2. PROPERTIES

Our corporate headquarters is a leased office facility located at 5001 Celebration Pointe Avenue, Suite 410, Gainesville, FL 32608.

## ITEM 3. LEGAL PROCEEDINGS

We are not a party to any litigation of a material nature.

## 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

**Market Information**

Our common stock trades on The NASDAQ Capital Market under the symbol "SHSP".

**Stockholders**

As of March 1, 2019, there were approximately 58 holders of our common stock including The Depository Trust Company, which holds shares of our common stock on behalf of an indeterminate number of beneficial owners.

**Dividends**

Our Company does not pay any cash dividends on its commons stock. Our Loan and Security Agreement with Western Alliance Bank restricts our ability to pay cash dividends on our common stock and it will continue to do so for the foreseeable future.

**Securities Authorized for Issuance under Equity Compensation Plans**

Equity Compensation Plans as of December 31, 2018.

**Equity Compensation Plan Information**

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders (1) | 1,654,522 | $ 6.07 | 479,152 |
| Equity compensation plans not approved by security holders (2) | 30,000 | $ 7.81 | -0- |
| **Total** | 1,684,522 | $ 6.11 | 479,152 |

(1) Reflects our 2010 Employee Stock Plan, as amended for the benefit of our directors, officers, employees and consultants. We have reserved 2,600,000 shares of common stock for such persons pursuant to that plan.
(2) Comprised of common stock purchase warrants we issued for services.

**Recent Sales of Unregistered Securities**

None.

## ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

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

*The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as "believes," "estimates," "could," "possibly," "probably," anticipates," "projects," "expects," "may," "will," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.*

*The following discussion and analysis should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.*

### Background Overview

We provide SaaS based marketing technologies to customers around the world. Our focus is on marketing automation tools that enable customers to interact with a lead from an early stage and nurture that potential customer using advanced features until it becomes a qualified sales lead or customer. We primarily offer our premium SharpSpring marketing automation solution, but also have customers on the SharpSpring Mail+ product, which is a subset of the full suite solution.

We believe our recent growth has been driven by the strong demand for marketing automation technology solutions, particularly in the small and mid-size business market. Our products are offered at competitive prices with unlimited multi-lingual customer support. We employ a subscription-based revenue model. We also earn revenues from additional usage charges that may come into effect when a customer exceeds a transactional quota, as well as fees earned for additional products and services.

Unless the context otherwise requires, in this section titled Management's Discussion and Analysis of Financial Condition and Results of Operations all references to "SharpSpring" relate to the SharpSpring product, while all references to "our Company," "we," "our" or "us" and other similar terms means SharpSpring, Inc., a Delaware corporation, and all subsidiaries.

### Results of Operations

*Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017*

| | Year Ended December 31, | | Change from | Percent Change from |
|---|---|---|---|---|
| | 2018 | 2017 | Prior Year | Prior Year |
| **Revenues and Cost of Sales:** | | | | |
| Revenues | $ 18,651,525 | $ 13,448,752 | $ 5,202,773 | 39% |
| Cost of Sales | 5,798,269 | 4,996,745 | 801,524 | 16% |
| Gross Profit | $ 12,853,256 | $ 8,452,007 | $ 4,401,249 | 52% |

Revenues from continuing operations increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily due to growth in our SharpSpring marketing automation customer base. Revenues for our flagship marketing automation platform increased to $18.3 million in 2018 from $12.8 million in 2017. During 2018, we continued to attract and acquire new customers on the SharpSpring platform which contributed to our revenue growth. Additionally, we implemented a price increase at the beginning of 2018 that was applied in conjunction with the release of new technology in the platform. This growth in revenues was partially offset by reduced revenue from our SharpSpring Mail+ product which declined from $0.7 million in 2017 to $0.4 million in 2018. We expect revenue to continue to increase in 2019 from net new SharpSpring customers acquired during 2019 and the realization of the full-year value of the customers acquired throughout 2018.

Cost of services increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily due to increased employee related costs associated with providing our technology platform to more customers and increased hosting cost with the growth of the Company. As a percentage of revenues, cost of services was 31% of revenues for the year ended December 31, 2018 and 37% of revenues during the year ended December 31, 2017. Although costs increased for support resources related to business growth, the Company achieved some operating leverage with increased revenues compared to the prior year. We expect costs of services to increase in 2019 in dollar terms, but remain relatively consistent as a percent of revenue, as we add more costs to support customers and promote growth in agency partner relationships, but also continue to create operating leverage in our support and hosting infrastructure.

| | Year Ended December 31, | | Change from | Percent Change from |
|---|---|---|---|---|
| | 2018 | 2017 | Prior Year | Prior Year |
| **Operating expenses:** | | | | |
| Sales and marketing | $ 10,092,691 | $ 6,677,807 | $ 3,414,884 | 51% |
| Research and development | 4,298,031 | 2,883,714 | 1,414,317 | 49% |
| General and administrative | 6,358,087 | 5,346,136 | 1,011,951 | 19% |
| Non-employee stock issuance expense | 508,561 | - | 508,561 | n/a |
| Intangible asset amortization | 460,000 | 527,468 | (67,468) | -13% |
| | $ 21,717,370 | $ 15,435,125 | $ 6,282,245 | 41% |

Sales and marketing expenses increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017. The increase was primarily due to an increase in marketing program spending for various lead generation activities, which increased by $2.5 million from the prior year. Additionally, we experienced an increase in marketing and sales employee-related costs due to hires made during 2018 to align with the Company's growth. We expect sales and marketing expenses to increase in 2019 as we devote more resources to acquiring new customers.

Research and development expenses increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017 primarily due to additional hiring of development and quality assurance staff since last year. Employee-related costs for this group increased by approximately $1.3 million in the year ended December 31, 2018 compared to the same period in 2017. We expect research and development spend to increase in 2019 as we increase our team to support future product development commensurate with the growth of our business.

General and administrative expenses increased for the year ended December 31, 2018 as compared to the year ended December 31, 2017, with higher employee related costs associated with business growth, higher facilities costs, and higher depreciation. Approximately $252,000 was related to the closure of our Northeast operations, which included transition of our CFO to the Gainesville office. We expect general and administrative expenses to increase in dollar terms and decrease as a percent of revenue in 2019, as we add costs to support general business growth.

During the year ended 2018, the Company issued 36,274 shares to a service provider to satisfy a performance-based contractual arrangement. The Company recorded an expense of approximately $509,000 associated with this issuance in 2018.

Amortization of intangible assets decreased for the year ended December 31, 2018, as compared to the year ended December 31, 2017, primarily due to the reduction of amortization related to the GraphicMail customer relationship intangibles that were fully depreciated at the end of 2017. We expect amortization expense to decrease in 2019.

| | Year Ended December 31, | | Change from | Percent Change from |
|---|---|---|---|---|
| | 2018 | 2017 | Prior Year | Prior Year |
| **Other** | | | | |
| Other income (expense), net | $ (545,482) | $ 209,175 | $ (754,657) | -361% |
| Gain (loss) on embedded derivative | (400,220) | - | (400,220) | n/a |
| Income tax expense (benefit) | (330,994) | (2,104,108) | 1,773,114 | -84% |

Other income (expense) is generally related to foreign exchange gains and losses derived from owing amounts or having amounts owed in currencies other than the entity's functional currency, as well as interest expense related to our convertible notes. Foreign exchange loss for the year ended December 31, 2018 was $348,000. Non-cash interest expense for the year ended December 31, 2018 and 2017 was $298,000 and zero, respectively.

We recorded a change in the valuation of convertible notes embedded derivatives of approximately $400,000 for the year ended December 31, 2018.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Act") was enacted into the law. The Tax Act contains broad and complex provisions including, but not limited to: (i) the reduction of corporate income tax rate from 35% to 21%, (ii) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries, (iii) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (iv) modifying the limitation on excessive employee remuneration, (v) requiring current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations, (vi) repeal of corporate alternative minimum tax ("AMT") and changing how AMT credits can be realized, (vii) creating a new minimum tax, (viii) creating a new limitation on deductible interest expense, (ix) changing rules related to uses and limitations of net operating loss carryforwards and foreign tax credits created in tax years beginning after December 31, 2017, and (x) eliminating the deduction for income attributable to domestic production activities.

As required under U.S. GAAP, the effects of tax law changes are recognized in the period of enactment. Accordingly, we recorded incremental income tax benefits in the amounts of $0.2 million and $0.1 million, after the impact of the valuation allowance, associated with the Tax Act during the year ended December 31, 2018 and 2017, respectively.

During the year ended December 31, 2018, our income tax benefit from operations related to U.S. consolidated deferred tax liabilities that were reduced by indefinite-lived operating losses created during 2018, increased income tax benefit related to the U.S. 2017 loss carryback, and additional tax benefit derived in foreign jurisdictions. For the year ended December 31, 2017, our income tax benefit from operations related to the carryback of the U.S. 2017 loss, reduction in the federal income tax rate, and additional tax benefits derived in foreign jurisdictions.

**Liquidity and Capital Resources**

*Sources and Uses of Cash*

Our primary source of operating cash inflows are payments from customers for use of our marketing automation technology platform. Such payments are primarily received monthly from customers but can sometimes be received annually in advance of providing the services, yielding a deferred revenue liability on our consolidated balance sheet. In addition, in March 2018, the Company issued $8.0 million of convertible notes and received $7.9 million in cash net of debt issuance costs. The Company also received $2.1 million in cash tax refunds in 2018, associated with 2017, U.S. net operating losses that were carried back and applied to income taxes paid for the 2016 year. To provide additional financing flexibility, the Company also has a credit facility in place. No amounts have been borrowed under the facility to date and based on the borrowing base calculations, approximately $2.1 million was available under the facility as of December 31, 2018.

Our primary sources of cash outflows from operations include payroll and payments to vendors and third-party service providers.

We have filed a shelf registration statement with the Securities and Exchange Commission, which was declared effective as of February 9, 2018. The shelf registration statement allows us to offer and sell common stock, preferred stock, debt securities, warrants and units, from time to time, in one or more offerings, up to a total public offering price of $50,000,000 on terms to be determined at the time of sale.

*Analysis of Cash Flows*

Net cash used in operating activities decreased by $428,000 to $3.6 million used in operations for the year ended December 31, 2018, compared to $4.0 million used in operations for the year ended December 31, 2017. The decrease in cash used in operating activities was attributable primarily to the $2.0 million tax refund received in June 2018, and $1.1 million due to the payment timing of certain expenses, offset by an increased net loss.

Net cash used in investing activities was $889,000 during the year ended December 31, 2018, compared to net cash provided by investing activities of $759,000 during the year ended December 31, 2017. The change in cash used for investing activities is primarily related to the receipt of the final $1.0 million payout during the year ended December 31, 2018, from the June 2016sale of our SMTP email relay product, and the increased investment in property and equipment during the year ended December 31, 2018.

Net cash provided by financing activities was $8.4 million during the year ended December 31, 2018, compared to $22,000 net cash received in financing activities during the year ended December 31, 2017. The majority of the net cash provided by financing activities is related the Company's issuance $8.0 million of convertible notes during the first quarter of 2018, for which the Company received $7.9 million after debt issuance costs. The Company also received $596,000 in proceeds from the exercise of stock options during the year ended December 31, 2018.

**Contractual Obligations**

We typically rent our office facilities with leases involving multi-year commitments. Although some of our service contracts are on a month-to-month basis, we sometimes enter into non-cancelable service contracts for longer periods of time, some of which may last several years. We entered into an agreement on March 28, 2018 to issue $8.0 million of convertible notes, with interest paid-in-kind. The full amount of the notes, including accrued interest paid-in-kind, is payable on the fifth anniversary of the issuance of the notes. Future minimum lease payments, payments due under non-cancelable service contracts and convertible notes debt obligations are as follows as of December 31, 2018:

| | Operating Leases | Debt Obligation |
|---|---|---|
| 2019 | $ 738,238 | - |
| 2020 | 742,956 | - |
| 2021 | 766,546 | - |
| 2022 | 771,278 | - |
| 2023 | 794,937 | 10,210,252 |
| Thereafter | 4,012,539 | - |
| Total | $ 7,826,495 | $ 10,210,252 |

**Significant Accounting Policies**

Our significant accounting policies, including the assumptions and judgments underlying them, are disclosed in the Notes to the Financial Statements. We have consistently applied these policies in all material respects. We do not believe that our operations to date have involved uncertainty of accounting treatment, subjective judgment, or estimates, to any significant degree, and it is unlikely that material different amounts would be reported under different assumptions.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**New Accounting Pronouncements**

For information on recent accounting pronouncements, see *Recently Issued Accounting Pronouncements* in the notes to the consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements included in this annual report under this item are set forth beginning on Page F-1 of this Annual Report, immediately following the signature pages.

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

Not Applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

*Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this report, our Company evaluated the effectiveness and design and operation of its disclosure controls and procedures. Our Company's disclosure controls and procedures are the controls and other procedures that we designed to ensure that our Company records, processes, summarizes, and reports in a timely manner the information that it must disclose in reports that our Company files with or submits to the Securities and Exchange Commission. Our principal executive officer and principal financial officer reviewed and participated in this evaluation. Based on this evaluation, our Company made the determination that its disclosure controls and procedures were effective.

*Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control -Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

The Company's internal control over financial reporting includes policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of the assets of the Company; (2) 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 of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. In addition, the design of any system of controls is based in part on certain assumptions about the likelihood of future events, and controls may become inadequate if conditions change. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

This annual report does not include an attestation report of the Company's independent 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 Securities and Exchange Commission that permit the Company to provide only management's attestation in this annual report.

*Changes in Company Internal Controls*

There were no changes in our internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not Applicable.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference from the information contained within our Company's definitive proxy statement for the 2019 Annual Meeting of Stockholders.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the information contained within our Company's definitive proxy statement for the 2019 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated by reference from the information contained within our Company's definitive proxy statement for the 2019 Annual Meeting of Stockholders.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from the information contained within our Company's definitive proxy statement for the 2019 Annual Meeting of Stockholders.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference from the information contained within our Company's definitive proxy statement for the 2019 Annual Meeting of Stockholders.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. *Financial Statements and Reports*

The financial statements included in Part II, Item 8 of this Annual Report on Form 10-K are filed as part of this Report.

2. Financial Statements Schedule

Other financial statement schedules have been omitted because either the required information (i) is not present, (ii) is not present in amounts sufficient to require submission of the schedule or (iii) is included in the Financial Statements and Notes thereto under Part II, Item 8 of this Annual Report on Form 10-K.

3. *Exhibits*

The exhibit list in the Index to Exhibits is incorporated herein by reference as the list of exhibits required as part of this Report.

### ITEM 16. FORM 10–K SUMMARY

None.

**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 March 4, 2019.

**SharpSpring, Inc.**

By: /s/ Richard A. Carlson
Richard A. Carlson
Chief Executive Officer and President
(Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature | Title | Date |
| --- | --- | --- |
| /s/ Richard A. Carlson<br>Richard A. Carlson | Chief Executive Officer and President (Principal Executive Officer), Director | March 4, 2019 |
| /s/ Bradley M. Stanczak<br>Bradley M. Stanczak | Chief Financial Officer (Principal Financial Officer) | March 4, 2019 |
| /s/ Steven A. Huey<br>Steven A. Huey | Chair of the Board of Directors | March 4, 2019 |
| /s/ Marietta Davis<br>Marietta Davis | Director | March 4, 2019 |
| /s/ David A. Buckel<br>David A. Buckel | Director | March 4, 2019 |
| /s/ Daniel C. Allen<br>Daniel C. Allen | Director | March 4, 2019 |

## INDEX TO FINANCIAL STATEMENTS


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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of SharpSpring, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of SharpSpring, Inc. (the Company) (f/k/a SMTP, Inc.) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive loss, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**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 audits 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 audits, 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 audits 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 audits 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 our audits provide a reasonable basis for our opinion.

*/s/ Cherry Bekaert LLP*

We have served as the Company's auditor since 2016.

Atlanta, Georgia

March 4, 2019

# SHARPSPRING, INC.
# CONSOLIDATED BALANCE SHEETS

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 9,320,866 | $ 5,399,747 |
| Accounts receivable, net of allowance for doubtful accounts of $127,516 and $525,937 at December 31, 2018 and December 31, 2017, respectively | 820,946 | 639,959 |
| Income taxes receivable | 22,913 | 2,132,616 |
| Other current assets | 1,184,217 | 899,127 |
| Total current assets | 11,348,942 | 9,071,449 |
| | | |
| Property and equipment, net | 1,260,798 | 799,145 |
| Goodwill | 8,866,413 | 8,872,898 |
| Intangibles, net | 1,866,000 | 2,326,000 |
| Other long-term assets | 665,123 | 612,631 |
| Total assets | $ 24,007,276 | $ 21,682,123 |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| Accounts payable | $ 1,613,477 | $ 504,901 |
| Accrued expenses and other current liabilities | 774,944 | 625,680 |
| Deferred revenue | 250,656 | 279,818 |
| Income taxes payable | 23,705 | 171,384 |
| Total current liabilities | 2,662,782 | 1,581,783 |
| | | |
| Deferred income taxes | - | 168,132 |
| Convertible notes, including accrued interest | 8,342,426 | - |
| Convertible notes embedded derivative | 214,350 | - |
| Total liabilities | 11,219,558 | 1,749,915 |
| Commitments and contingencies (Note 13) | | |
| | | |
| Shareholders' equity: | | |
| Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued or outstanding at December 31 2018 and December 31, 2017 | - | - |
| Common stock, $0.001 par value, Authorized shares-50,000,000; issued shares-8,639,139 at December 31 2018 and 8,456,061 at December 31, 2017; outstanding shares-8,619,139 at December 31, 2018 and 8,436,061 at December 31, 2017 | 8,639 | 8,456 |
| Additional paid in capital | 30,446,838 | 28,362,397 |
| Accumulated other comprehensive loss | (231,053) | (480,762) |
| Accumulated deficit | (17,352,706) | (7,873,883) |
| Treasury stock | (84,000) | (84,000) |
| Total shareholders' equity | 12,787,718 | 19,932,208 |

| | | |
|---|---|---|
| Total liabilities and shareholders' equity | $ 24,007,276 | $ 21,682,123 |

See accompanying notes to the consolidated financial statements.

## SHARPSPRING, INC.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| Revenue | $ 18,651,525 | $ 13,448,752 |
| Cost of services | 5,798,269 | 4,996,745 |
| Gross profit | 12,853,256 | 8,452,007 |
| Operating expenses: | | |
| Sales and marketing | 10,092,691 | 6,677,807 |
| Research and development | 4,298,031 | 2,883,714 |
| General and administrative | 6,358,087 | 5,346,136 |
| Non-employee stock issuance expense | 508,561 | - |
| Intangible asset amortization | 460,000 | 527,468 |
| Total operating expenses | 21,717,370 | 15,435,125 |
| Operating loss | (8,864,114) | (6,983,118) |
| Other (expense) income, net | (545,482) | 209,175 |
| Loss on embedded derivative | (400,220) | - |
| Loss before income taxes | (9,809,816) | (6,773,943) |
| Benefit from income taxes | (330,994) | (2,104,108) |
| Net loss | $ (9,478,822) | $ (4,669,835) |
| Basic net loss per share | $ (1.11) | $ (0.56) |
| Diluted net loss per share | $ (1.11) | $ (0.56) |
| Shares used in computing basic net loss per share | 8,512,297 | 8,395,319 |
| Shares used in computing diluted net loss per share | 8,512,297 | 8,395,319 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment, net | 249,709 | (35,707) |
| Comprehensive loss | $ (9,229,113) | $ (4,705,542) |

See accompanying notes to the consolidated financial statements.

# SHARPSPRING, INC.
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Common Stock | | Additional Paid in | Accumulated Other Comprehensive | Treasury Stock | | Accumulated | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Loss | Shares | Amount | Deficit | Total |
| Balance, December 31, 2016 | 8,380,663 | 8,381 | $ 27,556,398 | $ (445,055) | 20,000 | $ (84,000) | $ (3,204,047) | $ 23,831,677 |
| Stock based compensation - stock options | - | - | 510,978 | - | - | - | - | 510,978 |
| Issuance of common stock for cash | 15,387 | 15 | 22,105 | - | - | - | - | 22,120 |
| Issuance of common stock for director services | 60,011 | 60 | 272,916 | - | - | - | - | 272,976 |
| Foreign currency translation adjustment, net | - | - | - | (35,707) | - | - | - | (35,707) |
| Net loss | - | - | - | - | - | - | (4,669,836) | (4,669,836) |
| Balance, December 31, 2017 | 8,456,061 | $ 8,456 | $ 28,362,397 | $ (480,762) | 20,000 | $ (84,000) | $ (7,873,883) | $ 19,932,208 |
| Stock based compensation - stock options | - | - | $ 801,655 | - | - | - | - | $ 801,655 |
| Issuance of common stock for cash | 113,090 | 113 | 596,274 | - | - | - | - | 596,387 |
| Issuance of common stock for director services | 23,302 | 24 | 177,998 | - | - | - | - | 178,022 |
| Issuance of common stock for other non-employee services | 36,274 | 36 | 508,525 | - | - | - | - | 508,561 |
| Issuance of common stock for warrant conversions | 10,412 | 10 | (10) | - | - | - | - | - |
| Foreign currency translation adjustment, net | - | - | - | 249,709 | - | - | - | 249,709 |
| Net loss | - | - | - | - | - | - | (9,478,822) | (9,478,822) |
| Balance, December 31, 2018 | 8,639,139 | $ 8,639 | $ 30,446,838 | $ (231,053) | 20,000 | $ (84,000) | $ (17,352,706) | $ 12,787,718 |

See accompanying notes to the consolidated financial statements.

## SHARPSPRING, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (9,478,822) | $ (4,669,835) |
| Adjustments to reconcile loss from operations: | | |
| Depreciation and amortization | 892,233 | 807,574 |
| Amortization of costs to acquire contracts | 758,014 | 557,595 |
| Non-cash stock compensation | 964,676 | 768,778 |
| Non-employee stock issuance expense | 508,561 | - |
| Deferred income taxes | (168,119) | 5,618 |
| Loss/(gain) on disposal of property and equipment | (4,700) | 3,481 |
| Non-cash interest | 304,301 | - |
| Change in fair value of embedded derivative features | 400,220 | - |
| Amortization of debt issuance costs | (6,088) | - |
| Unearned foreign currency gain/loss | 289,339 | (70,769) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (183,350) | 665,296 |
| Other assets | (1,097,683) | (726,227) |
| Income taxes, net | 1,966,648 | (1,105,771) |
| Accounts payable | 1,094,281 | (22,860) |
| Accrued expenses and other current liabilities | 162,984 | (256,969) |
| Deferred revenue | (27,283) | (8,795) |
| Net cash used in operating activities | (3,624,788) | (4,052,884) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (893,886) | (177,110) |
| Proceeds from the sale of property and equipment | 4,700 | - |
| Acquisitions of customer assets from resellers | - | (64,268) |
| Proceeds from the sale of discontinued operations | - | 1,000,000 |
| Net cash (used in) provided by investing activities | (889,186) | 758,622 |
| Cash flows used in financing activities: | | |
| Proceeds from issance of convertible note | 8,000,000 | - |
| Debt issuance costs | (141,657) | - |
| Proceeds from exercise of stock options | 596,387 | 22,133 |
| Net cash provided by financing activities | 8,454,730 | 22,133 |
| Effect of exchange rate on cash | (19,637) | 20,502 |
| Change in cash and cash equivalents | 3,921,119 | (3,251,627) |

| | | |
|---|---|---|
| Cash and cash equivalents, beginning of period | 5,399,747 | 8,651,374 |
| Cash and cash equivalents, end of period | $ 9,320,866 | $ 5,399,747 |
| Supplemental information on consolidated statements of cash flows: | | |
| Cash (received) paid for income taxes | $ (2,099,762) | $ 98,637 |

See accompanying notes to the consolidated financial statements.

**SHARPSPRING, INC.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1: Organization**

SharpSpring, Inc. (the “Company”) provides a cloud-based marketing automation solution. SharpSpring is designed to increase the rates at which businesses generate leads and convert leads to sales opportunities by improving the way businesses communicate with customers and prospects. Our products are marketed directly by us and through a small group of reseller partners to customers around the world.

**Note 2: Summary of Significant Accounting Policies**

*Basis of Presentation and Consolidation*

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Our Consolidated Financial Statements include the accounts of SharpSpring, Inc. and our subsidiaries (the “Company”). Our Consolidated Financial Statements reflect the elimination of all significant inter-company accounts and transactions.

*Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. 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. Actual results could differ from those estimates.

*Operating Segments*

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision maker (“CODM”), which is the Company’s chief executive officer, in deciding how to allocate resources and assess performance. The Company’s CODM evaluates the Company’s financial information and resources and assess the performance of these resources on a consolidated basis. The Company does not present geographical information about revenues because it is impractical to do so.

*Cash and Cash Equivalents*

Cash equivalents are short-term, liquid investments with remaining maturities of three months or less when acquired. Cash and cash equivalents are deposited or managed by major financial institutions and at most times are in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

*Fair Value of Financial Instruments*

U.S. GAAP establishes a fair value hierarchy which has three levels based on the reliability of the inputs to determine the fair value. These levels include: Level 1, defined as inputs such as unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, embedded derivatives (associated with our convertible notes) and accounts payable. The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the short-term nature of these items. The fair value of the embedded derivatives associated with our convertible notes is calculated using Level 3 unobservable inputs, utilizing a probability-weighted expected value model to determine the liability. The fair value of the embedded derivatives at December 31, 2018 and December 31, 2017 was a liability balance of $214,350 and zero, respectively. The change in fair value for the year ended December 31, 2018 was a loss of $400,220.

*Accounts Receivable*

In cases where our customers pay for services in arrears, we accrue for revenue in advance of billings as long as the criteria for revenue recognition is met, thus creating a contract asset. A portion of our accounts receivable balance is therefore unbilled at each balance sheet date. Accounts receivable are carried at the original invoiced amount less an allowance for doubtful accounts based on the probability of future collection. Management reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. The Company reserves for receivables that are determined to be uncollectible, if any, in its allowance for doubtful accounts. After the Company has exhausted all collection efforts, the outstanding receivable is written off against the allowance.

The following table presents the balances of accounts receivable as of December 31, 2018 and December 31, 2017:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable | $ 208,037 | $ 611,293 |
| Unbilled receivables | 740,425 | 554,603 |
| Gross receivables | $ 948,462 | $ 1,165,896 |
| Allowance for doubtful accounts | (127,516) | (525,937) |
| Accounts receivable and unbilled receivables, net | $ 820,946 | $ 639,959 |

During the year ended December 31, 2018, the Company wrote off approximately $494,000 of accounts receivable against the allowance for doubtful accounts, with zero net loss recognized in the period for this amount as the accounts were fully reserved. Allowance for doubtful accounts increased by approximately $58,000 due to bad debt and changes in revenue reserves. The remaining change in allowance for doubtful accounts is due to fluctuations in foreign currency rates. No amounts were written off during the year ended December 31, 2017.

*Intangibles*

Finite-lived intangible assets include trade names, developed technologies and customer relationships and are amortized based on the estimated economic benefit over their estimated useful lives, with original periods ranging from 5 to 11 years. We continually evaluate the reasonableness of the useful lives of these assets. Finite-lived intangibles are tested for recoverability whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. Impairment losses are measured as the amount by which the carrying value of an asset group exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an asset group. The dynamic economic environment in which the Company operates, and the resulting assumptions used to estimate future cash flows impact the outcome of these impairment tests.

*Goodwill and Impairment*

As of December 31, 2018 and 2017, we had recorded goodwill of $8,866,413 and $8,872,898, respectively. Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired in the SharpSpring and GraphicMail acquisitions (See Note 3). Under Financial Accounting Standards Board ("FASB")

Accounting Standards Codification ("ASC") 350, *"Intangibles - Goodwill and Other"* deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests, and tests between annual tests in certain circumstances, based on estimated fair value in accordance with FASB ASC 350-10, and written down when impaired.

*Debt Issuance Costs*

We incurred certain third-party costs in connection with the issuance of the 5% Convertible Notes maturing March 27, 2023 (the "Notes"), as more fully described in Note 4: Convertible Notes, principally related to legal and financial advisory fees. These costs are included as a direct reduction to the carrying value of the debt as part of the Notes on our consolidated balance sheets and are being amortized to interest expense ratably over the five-year term of the Notes.

Estimated amortization expense of debt issuance costs for subsequent years is as follows:

| | | |
|---|---|---|
| 2019 | | 26,585 |
| 2020 | | 27,885 |
| 2021 | | 29,247 |
| 2022 | | 30,677 |
| 2023 | | 7,759 |
| Total | $ | 122,153 |

*Income Taxes*

Provision for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed in FASB ASC 740, Accounting for Income Taxes. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

The Company applies the authoritative guidance in accounting for uncertainty in income taxes recognized in the consolidated financial statements. This guidance prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. There are no material uncertain tax positions taken by the Company on its tax returns. Tax years subsequent to 2014 remain open to examination by U.S. federal and state tax jurisdictions.

In determining the provision for income taxes, the Company uses statutory tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. This includes recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns to the extent pervasive evidence exists that they will be realized in future periods. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which are expected to be in effect in the years in which the temporary differences are expected to reverse. In accordance with the Company's income tax policy, significant or unusual items are separately recognized in the period in which they occur. The Company is subject to routine examination by domestic and foreign tax authorities and frequently faces challenges regarding the amount of taxes due. These challenges include positions taken by the Company related to the timing, nature and amount of deductions and the allocation of income among various tax jurisdictions. As of December 31, 2018, the Company is being examined by the U.S. tax authorities related to the 2016 and 2017 tax years. The company does not expect any material adjustments as a result of the audit.

*Property and Equipment*

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to operations. Repairs and maintenance costs

are expensed as incurred. Depreciation expense from continuing operations related to property and equipment was $432,233 and $280,106 for the years ended December 31, 2018 and 2017, respectively.

Property and equipment as of December 31 is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Property and equipment, gross: | | |
| Leasehold improvements | $ 197,268 | $ 128,122 |
| Furniture and fixtures | 611,171 | 355,033 |
| Computer equipment and software | 1,135,012 | 776,201 |
| Total | 1,943,451 | 1,259,356 |
| Less: Accumulated depreciation and amortization | (682,653) | (460,211) |
| | $ 1,260,798 | $ 799,145 |

Useful lives are as follows:

| | |
|---|---|
| Leasehold improvements | 5 years |
| Furniture and fixtures | 3-5 years |
| Computing equipment | 3 years |
| Software | 3-5 years |

*Revenue Recognition*

The Company recognizes revenue from its services when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be measured reliably. All significant sources of revenue are the result of a contract with a customer, and as such meet all of the requirements of recognizing revenue in accordance with FASB ASC 606. For the year ended December 31, 2018 and 2017, revenue from contracts with customers was $18.7 million and $13.5 million, respectively.

For the Company's internet-based SharpSpring marketing automation solution, the services are typically offered on a month-to-month basis with a fee charged each month depending on the size of the engagement with the customer. Monthly fees are recorded as revenue during the month they are earned. Some customers are charged annually in advance, for which revenues are deferred and recorded ratably over the subscription period. The Company also charges transactional-based fees if monthly volume limitations are reached or other chargeable activity occurs. Additionally, customers are typically charged an upfront onboarding and training services. The upfront implementation and training fees represent short-term "use it or lose it" services offered for a flat fee. Such flat fees are recognized over the service period, which is typically 60 days.

For the SharpSpring Mail+ product, the services are typically offered on a month-to-month basis. Customers are either charged in arrears based on the number of contacts in the system during the billing period or in advance if the customer selects a plan based on e-mail volume. The Company also charges transactional-based fees if monthly volume limitations are reached or other chargeable activity occurs.

Our products are billed in arrears or upfront, depending on the product, which creates contract assets (accrued revenue) and contract liabilities (deferred revenue). Contract assets occur due to unbilled charges for which the Company has satisfied performance obligations. Contract liabilities occur due to billing up front for charges that the Company has not yet fully satisfied all performance obligations. Both contract assets and liabilities are recognized and deferred ratably over their service periods.

The Company makes judgements when determining revenue recognition. Because many of our contracts are billed in arrears, estimates are made for the transaction price and amounts allocated to each accounting period related to the performance obligations of each contract. There have been no changes to the methodology used in these judgements and estimates for determining revenues. Some of the estimates used when determining revenue recognition relate to variable customer consideration that changes from month to month. The Company uses the most likely amount method to determine the estimated variable consideration, relying on historical consideration received, customer status and projected usage to determine the

most likely consideration amount. The amount of variable consideration recognized is constrained and is only included in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur.

The performance obligations are measured using the output method to recognize revenue based on direct measurements of the value to the customer of the services transferred to date. Most of the Company's contracts are satisfied over time, and as each contract has a predefined service period. This allows for a reliable way to measure performance obligations remaining and completed. The Company does have some contracts that are satisfied at a point in time upon delivery of services. The criteria for the completion of these contracts is defined in each contract with a customer so that there is no judgment required in evaluating when the service is delivered to the customer. Any discount given is allocated to the performance obligation and is treated as reduction to the transaction price. Due to the month to month nature of the Company's contracts with customers, no financing or time value of money component exists related to the contracts with customers. Due to the month to month nature of the Company's contracts with customers, we have elected to utilize the optional practical expedient from ASC 606-10-50-14 through 50-14A for disclosing the remaining performance obligations. The remaining performance obligations as of the balance sheet date consist of trainings and availability and use of the SharpSpring platform over the remainder of the contract, which is typically less than 30 days.

From time to time, the Company offers refunds to customers and experiences credit card chargebacks relating to cardholder disputes that are commonly experienced by businesses that accept credit cards. The Company makes estimates for refunds and credit card chargebacks based on historical experience.

*Deferred Revenue*

Deferred revenue consists of payments received in advance of the Company's providing the services. Deferred revenue is earned over the service period identified in each contract. The majority of our deferred revenue balances (contract liabilities) arise from upfront implementation and training fees for its SharpSpring marketing automation solution that are paid in advance. These services are typically performed over a 60-day period, and the revenue is recognized over that period. Additionally, some of the Company's customers pay for services in advance on a periodic basis (such as monthly, quarterly, annually or bi-annually). In situations where a customer pays in advance for a one-year service period, the deferred revenue is recognized over that service period. Deferred revenue balances were $279,818 and $280,159 as of December 31, 2017 and 2016, respectively. Deferred revenue during the year ended December 31, 2018 and 2017 decreased by $29,162 and $340, respectively. The Company had deferred revenue contract liability balances of $250,656 and $279,818 as of December 31, 2018 and 2017, respectively. The Company expects to recognize a majority of the revenue on of these remaining performance obligations within 12 months. Approximately 20% of the deferred revenue balance is related to prepaid credits. These credits are recognized as they are used. The Company expects to recognize approximately half of the remaining credits within 12 months.

*Accrued Revenue*

In cases where our customers pay for services in arrears, we accrue for revenue in advance of billings as long as the criteria for revenue recognition is met, thus creating a contract asset. A portion of our accounts receivable balance is therefore unbilled at each balance sheet date. The accrued revenue contract asset balances were $554,603 and $439,559 as of December 31, 2017 and 2016, respectively. Revenue billed that was included in accrued revenue at the beginning of the year ended December 31, 2018 and 2017 was $554,603 and $439,559, respectively. Accrued revenue not billed in year ended December 31, 2018 and 2017 was $740,425 and $554,603, respectively. The Company had accrued revenue contract asset balances of $740,425 and $554,603 as of December 31, 2018 and 2017, respectively.

*Concentration of Credit Risk and Significant Customers*

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents. At December 31, 2018 and 2017, the Company had cash balances at financial institutions that exceed federally insured limits. The Company maintains its cash balances with accredited financial institutions. The Company does not believe it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships.

For the years ended December 31, 2018, and 2017, there were no customers that accounted for more than 10% of total revenue or 10% of total accounts receivable.

*Cost of Services*

Cost of services consists primarily of direct labor costs associated with support and customer onboarding and technology hosting costs and license costs associated with the cloud-based platform.

*Credit Card Processing Fees*

Credit card processing fees are included as a component of general and administrative expenses and are expensed as incurred.

*Advertising Costs*

The Company expenses advertising costs as incurred. Advertising and marketing expenses, excluding marketing team costs, were $5.7 million and $3.2 million for the years ended December 31, 2018 and 2017, respectively.

*Capitalized Cost of Obtaining a Contract*

The Company capitalizes sales commission costs which are incremental to obtaining a contract. We expense costs that are related to obtaining a contract but are not incremental such as other sales and marketing costs and other costs that would be incurred regardless of if the contract was obtained. Capitalized costs are amortized using straight-line amortization over the estimated weighted average life of the customer, which we have estimated to be 3 years. At December 31, 2018, the net carrying value of the capitalized cost of obtaining a contract was $1,309,329, of which $699,159 is included in other current assets and $610,170 is included in other long-term assets. At December 31, 2017, the net carrying value of the capitalized cost of obtaining a contract was $1,218,833, of which $631,203 is included in other current assets and $587,630 is included in other long-term assets. The Company amortized costs directly attributable to obtaining contracts of $758,014 and $557,495 during the year ended December 31, 2018 and 2017, respectively. Such capitalized cost adjustments have been retroactively applied to prior periods.

*Stock Compensation*

We account for stock-based compensation in accordance with FASB ASC 718 “Compensation - Stock Compensation”, which requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period.

*Net Income (Loss) Per Share*

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents for the period. For purposes of this calculation, options to purchase common stock, warrants and the conversion option of the convertible Notes (Note 4) are considered to be potential common shares outstanding. Since the Company incurred net losses for each of the periods presented, diluted net loss per share is the same as basic net loss per share. The Company’s potential common shares outstanding were not included in the calculation of diluted net loss per share as the effect would be anti-dilutive.

*Comprehensive Income or Loss*

Comprehensive income or loss includes all changes in equity during a period from non-owner sources, such as net income or loss and foreign currency translation adjustments.

*Foreign Currency*

The functional currency of the Company’s foreign subsidiaries is the local currency. Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rates in effect at the balance sheet dates; with the resulting translation adjustments directly recorded to a separate component of accumulated other comprehensive loss. Income and expense accounts are translated at the average exchange rates during the period. Foreign currency transaction gains and losses are recorded in other comprehensive income (loss).

*Recently Issued Accounting Standards*

Recent accounting standards not included below are not expected to have a material impact on our consolidated financial position and results of operations.

In January 2017, the FASB issued guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit's fair value. The new standard is effective beginning in January 2020, with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued guidance that requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective in 2019 with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

In May 2014, the FASB issued updated guidance and disclosure requirements for recognizing revenue from contracts with customers. This new revenue recognition standard became effective for the Company on January 1, 2018. In addition to providing guidance on when and how revenue is recognized, the new standard also provides guidance on accounting for costs of obtaining contracts primarily related to aligning the expense with the period in which the value is recognized. As a result of this new standard, the Company was required to capitalize certain costs related to obtaining contracts associated with commissions expense paid to salespeople. The Company is using the retrospective transition method to adjust each prior reporting period presented for this new method of accounting for costs associated with obtaining contracts. The application of the retrospective transition was applied to all contracts at the date of initial application. The following tables present our results under our historical method and as adjusted to reflect these accounting changes.

| | Historical Accounting Method | Effect of Adoption of New ASU | As Adjusted |
|---|---|---|---|
| **Year Ended December 31, 2018** | | | |
| Sales and Marketing Expense | 10,183,186 | (90,495) | 10,092,691 |
| Total operating expense | 21,807,865 | (90,495) | 21,717,370 |
| Operating loss | (8,954,609) | 90,495 | (8,864,114) |
| Loss before income taxes | (9,900,311) | 90,495 | (9,809,816) |
| Net loss | (9,569,317) | 90,495 | (9,478,822) |
| Basic net loss per share | (1.12) | 0.01 | (1.11) |
| Diluted net loss per share | (1.12) | 0.01 | (1.11) |
| **Balance as of December 31, 2018** | | | |
| Other current assets | 485,058 | 699,159 | 1,184,217 |
| Other long-term assets | 54,954 | 610,169 | 665,123 |
| Total assets | 22,697,947 | 1,309,329 | 24,007,276 |
| Accumulated deficit | (18,662,035) | 1,309,329 | (17,352,706) |

| | Historical Accounting Method | Effect of Adoption of New ASU | As Adjusted |
|---|---|---|---|
| **Year Ended December 31, 2017** | | | |
| Sales and Marketing Expense | 6,983,208 | (305,401) | 6,677,807 |
| Total operating expense | 15,740,526 | (305,401) | 15,435,125 |
| Operating loss | (7,288,519) | 305,401 | (6,983,118) |
| Loss before income taxes | (7,079,344) | 305,401 | (6,773,943) |
| Net loss | (4,975,236) | 305,401 | (4,669,835) |
| Basic net loss per share | (0.59) | 0.04 | (0.56) |
| Diluted net loss per share | (0.59) | 0.04 | (0.56) |
| **Balance as of December 31, 2017** | | | |
| Other current assets | 267,924 | 631,203 | 899,127 |
| Other long-term assets | 25,000 | 587,631 | 612,631 |
| Total assets | 20,463,289 | 1,218,834 | 21,682,123 |
| Accumulated deficit | (9,092,717) | 1,218,834 | (7,873,883) |

**Note 3: Credit Facility**

In March 2016, the Company entered into a $2.5 million revolving loan agreement (the “Credit Facility”) with Western Alliance Bank. The facility originally matured on March 21, 2018 and was amended to mature on March 31, 2020. There are no mandatory amortization provisions and the Credit Facility is payable in full at maturity. Loan proceeds accrue interest at the higher of Western Alliance Bank’s Prime interest rate (5.25% as of December 31, 2018) or 5.25%, plus 2.00%. The Credit Facility is collateralized by a lien on substantially all of the existing and future assets of the Company and secured by a pledge of 100% of the capital stock of SharpSpring Technologies, Inc. and a 65% pledge of the Company’s foreign subsidiaries’ stock. The Credit Facility subjects the Company to a number of restrictive covenants, including financial and non-financial covenants customarily found in loan agreements for similar transactions. The Credit Facility also restricts our ability to pay cash dividends on our common stock. There are no amounts outstanding under the Credit Facility and no events of default have occurred.

**Note 4: Convertible Notes**

On March 28, 2018, we issued $8.0 million in aggregate principal amount of convertible notes (the “Notes”). Interest accrues at a rate of 5.0% per year and is “payable in kind” annually in the form of the issuance of additional notes (“PIK Notes”). The principal amount of the Notes and the PIK Notes are due and payable in full on the fifth anniversary of the issuance date of the Notes. The Company has the right to extend the maturity date for up to nine months on up to three separate occasions, with interest accruing at a rate of 10% during any such extension periods. The Notes are convertible into shares of the Company’s common stock at any time by the holder at a fixed conversion price of $7.50 per share, subject to customary adjustments for specified corporate events. Additionally, if the Notes and PIK Notes are not converted into common stock by the holder, at the maturity date, the Company may elect to convert all outstanding Notes and PIK Notes into shares of the Company’s common stock at a conversion price equal to 80% of the volume weighted average closing price of the Company’s common stock for the 30 trading days prior to an including the maturity date. We received net proceeds from the offering of approximately $7.9 million after adjusting for debt issue costs, including financial advisory and legal fees.

The Notes are unsecured obligations and are subordinate in right of payment to the Credit Facility (Note 3). So long as any Notes are outstanding, except as the investor may otherwise agree in writing, the Company shall at no time (i) have outstanding senior indebtedness in an aggregate amount exceeding 18.6% of the Company’s trailing twelve-month revenue, (ii) incur any indebtedness that is both junior in right of payment to the obligations of the Company to its senior secured lender and senior to the Company’s obligations under the Notes or (iii) enter into any agreement with any lender or other third party that would (A) prohibit the Company from issuing PIK Notes at any time or under any circumstances or (B) prohibit the conversion of the Notes in accordance with their terms at any time or under any circumstances. Prior to the issuance of the Notes, the Company had no outstanding indebtedness for borrowed money. The holder of the Notes must notify the Company at least 120 days prior to the maturity of the Notes of its election to convert the Notes.

The Notes agreement contains customary events of default with respect to the Notes and provides that upon certain events of default occurring and continuing, the investor, by written notice to the Company, may declare the entire outstanding principal amount of the Note and all accrued but unpaid interest to be immediately due and payable. During the continuance of an event of default, the investor would have recourse to any and all remedies available to under applicable law. The Notes were recorded upon issuance at amortized cost in accordance with applicable accounting guidance. As there is no difference in the amount recorded at inception and the face value of the Notes, interest expense will be accreted at the stated interest rate under the terms of the Notes. Total interest expense related to the Notes will be impacted by the amortization of the debt issuance cost using the effective interest method.

The Company would be required to accelerate and issue the PIK Notes through the maturity of the Notes if the Company elects to convert the Notes prior to maturity (which it can do upon certain conditions) or if there is a change in control. Pursuant to accounting guidance, for each of these situations, the Company determined that the economic characteristics of these “make whole” features were not considered clearly and closely related to the Company’s stock. Accordingly, these features were determined to be “embedded derivatives” and were bifurcated from the Notes and separately accounted for on a combined basis at fair value as a single derivative. The fair value of the derivatives as of December 31, 2018 was a liability of $214,350 which is included within the non-current liabilities on the balance sheet. The derivative is being accounted for at fair value, with subsequent changes in the fair value to be reported as part of Other income (expense), net in the Consolidated Statement of Operations.

Additionally, the investor’s conversion option was analyzed for embedded derivative treatment, but the conversion option qualifies for a scope exception as it is considered to be clearly and closely related to the Company’s stock.
The net carrying amount of the Notes at December 31, 2018 was as follows:

| | Year Ended December 31, 2018 |
|---|---|
| Principal amount | $ 8,000,000 |
| Accrued interest paid-in-kind | 304,301 |
| Unamortized debt issuance costs | (122,153) |
| Original embedded derivative conversion feature | 160,278 |

| | |
|---|---|
| Net carrying value | $ 8,342,426 |

We incurred certain third-party costs in connection with our issuance of the Notes, principally related to financial advisory and legal fees, which are being amortized to interest expense ratably over the five-year term of the Notes. The following table sets forth total interest expense related to the Notes for the period ended December 31, 2018:

| | Year Ended December 31, 2018 |
|---|---|
| Contractual interest paid-in-kind expense (non-cash) | $ 304,301 |
| Amortization of debt issuance costs (non-cash) | 19,504 |
| Amortization of embedded derivative (non-cash) | (25,592) |
| Total interest expense | $ 298,213 |
| Effective interest rate | 4.9% |

**Note 5: Goodwill and Other Intangible Assets**

Goodwill and acquired intangible assets are initially recorded at fair value and measured periodically for impairment. In performing the Company's annual impairment analysis during the fourth quarters of 2018 and 2017, the Company determined that the carrying amount of the Company's goodwill was recoverable and no additional tests were required. Because portions of the goodwill are denominated in foreign currencies, relatively minor changes to the goodwill balance occur over time due to changes in foreign exchange rates. During the year ended December 31, 2018 and 2017, changes in foreign exchange rates caused goodwill to be reduced by $6,485 and increased by $27,504, respectively.

In addition to our annual goodwill impairment review, the Company also performs periodic reviews of the carrying value and amortization periods of other acquired intangible assets. If indicators of impairment are present, an estimate of the undiscounted cash flows that the specific asset is expected to generate must be made to ensure that the carrying value of the asset can be recovered. These estimates involve significant subjectivity.

During the years ended December 31, 2018 and 2017, the Company determined that no indicators of impairment were present for Goodwill and acquired intangible assets.

The following tables set forth the information for intangible assets subject to amortization and for intangible assets not subject to amortization.

| | As of December 31, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Amortized intangible assets: | | | |
| Trade names | $ 120,000 | (120,000) | $ - |
| Technology | 2,130,000 | (954,000) | 1,176,000 |
| Customer relationships | 4,100,014 | (3,410,014) | 690,000 |
| Unamortized intangible assets: | 6,350,014 | (4,484,014) | 1,866,000 |
| Goodwill | | | 8,866,413 |
| Total goodwill and intangible assets | | | $ 10,732,413 |

| | As of December 31, 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Amortized intangible assets: | | | |
| Trade names | $ 346,644 | $ (309,640) | $ 37,004 |
| Technology | 3,834,023 | (2,404,023) | 1,430,000 |
| Customer relationships | 4,165,665 | (3,306,669) | 858,996 |
| Unamortized intangible assets: | 8,346,332 | (6,020,332) | 2,326,000 |
| Goodwill | | | 8,872,898 |
| Total intangible assets | | | $ 11,198,898 |

Estimated amortization expense for 2018 and subsequent years is as follows:

| | |
|---|---|
| 2019 | 381,000 |
| 2020 | 332,000 |
| 2021 | 280,000 |
| 2022 | 228,000 |
| 2023 | 180,000 |
| Thereafter | 465,000 |
| Total | $ 1,866,000 |

Amortization expense, excluding impairments, for the years ended December 31, 2018 and 2017, was $460,000 and $527,468, respectively.

**Note 6: Changes in Accumulated Other Comprehensive Income (Loss)**

| | Foreign Currency Translation Adjustment |
|---|---|
| Balance as of December 31, 2017 | $ (480,762) |
| Other comprehensive income (loss) prior to reclassifications | - |
| Amounts reclassified from accumulated other comprehensive income | - |
| Tax effect | - |
| Net current period other comprehensive loss | 249,709 |
| Balance as of December 31, 2018 | $ (231,053) |

**Note 7: Net Loss Per Share**

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents for the period. For purposes of this calculation, options to purchase common stock, warrants and the conversion option of the convertible Notes (Note 4) are considered to be potential common shares outstanding.

Computation of net income per share is as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net loss | $ (9,478,822) | $ (4,669,835) |
| | | |
| Basic weighted average common shares outstanding | 8,512,297 | 8,395,319 |
| Add incremental shares for: | | |
| Warrants | - | - |
| Stock options | - | - |
| Convertible notes | - | - |
| Diluted weighted average common shares outstanding | 8,512,297 | 8,395,319 |
| | | |
| Net loss per share: | | |
| Basic | $ (1.11) | $ (0.56) |
| Diluted | $ (1.11) | $ (0.56) |

Additionally, since the Company incurred net losses for each of the periods presented, diluted net loss per share is the same as basic net loss per share. The Company's outstanding warrants, stock options, and convertible notes were not included in the calculation of diluted net loss per share as the effect would be anti-dilutive. The following table contains all potentially dilutive common stock equivalents:

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Warrants | 30,000 | 80,000 |
| Stock options | 1,654,522 | 1,069,330 |
| Convertible notes | 1,107,240 | - |

**Note 8: Income Taxes**

On December 22, 2017, the Tax Act was enacted into the law. The Tax Act contains broad and complex provisions including, but not limited to: (i) the reduction of corporate income tax rate from 35% to 21%, (ii) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries, (iii) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (iv) modifying the limitation on excessive employee remuneration, (v) requiring current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations, (vi) repeal of corporate alternative minimum tax ("AMT") and changing how AMT credits can be realized, (vii) creating a new minimum tax, (viii) creating a new limitation on deductible interest expense, (ix) changing rules related to uses and limitations of net operating loss carryforwards and foreign tax credits created in tax years beginning after December 31, 2017, and (x) eliminating the deduction for income attributable to domestic production activities.

At December 31, 2017, the Company calculated the accounting for the tax effects of the rate change from 35% to 21%, and recorded the effects on the existing deferred tax balances. Accordingly, we recorded incremental income tax benefits in the amounts of $0.2 million and $0.1 million, after the impact of the valuation allowance, associated with the Tax Act during the year ended December 31, 2018 and 2017, respectively.

In response to the enactment of the Tax Act in late 2017, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118") to address situations where the accounting is incomplete for certain income tax effects of the Tax Act upon issuance of an entity's financial statements for the reporting period in which the Tax Act was enacted. Under SAB 118, a company may record provisional amounts during a measurement period for specific income tax effects of the Tax Act for which the accounting is incomplete, but a reasonable estimate can be determined, and when unable to determine a reasonable estimate for any income tax effects, report provisional amounts in the first reporting period in which a reasonable estimate can be determined. The Company recorded the impact of the tax effects of the Tax Act, relying on estimates where the accounting is incomplete as of December 31, 2018. The Company did not identify any changes to its original estimate of the impact of the Tax Act. As guidance and technical corrections are issued in the upcoming quarters, the Company will record updates to its provisional estimates.

Income taxes for years ended December 31, is summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Current Provision | | |
| Federal | (154,872) | (1,939,620) |
| State | 32,028 | 73,301 |
| Foreign | (40,018) | (243,406) |
| Current Income Tax Provision | (162,862) | (2,109,725) |
| Deferred Provision | | |
| Federal | (143,988) | (34,621) |
| State | (24,144) | 7,257 |
| Foreign | - | 32,981 |
| Deferred Income Tax Provision | (168,132) | 5,617 |
| Total Income Tax Provision | (330,994) | (2,104,108) |

A reconciliation of income tax for continuing operations computed at the U.S. statutory rate to the effective income tax rate is as follows:

| | Year Ended December 31, 2018 | | Year Ended December 31, 2017 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Federal statutory rates | $ (2,058,172) | 21% | $ (2,369,986) | 35% |
| State income taxes, net of federal benefit | (194,244) | 2% | (563,944) | 8% |
| Permanent differences | 66,068 | -1% | 148,246 | -2% |
| Rate Change | - | 0% | 672,562 | -10% |
| Other | (69,968) | 1% | 141,284 | -2% |
| Credits | (147,727) | 2% | (141,256) | 2% |
| Foreign | (80,534) | 1% | 381,364 | -6% |
| Valuation Allowance | 2,153,583 | -22% | (372,378) | 5% |
| Effective rate | $ (330,994) | 3% | $ (2,104,108) | 31% |

The following is a summary of the components of the Company's deferred tax assets:

| | As of December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Deferred tax assets (liabilities) | | |
| Accrual to cash | - | 118,366 |
| Stock-based compensation | 226,476 | 193,620 |

| | | |
|---|---|---|
| Depreciation | (252,795) | (103,863) |
| Intangibles | 662,042 | 701,956 |
| Net Operating Loss | 3,630,772 | 1,110,387 |
| Accruals & Reserves | 75,685 | - |
| Net deferred tax asset valuation allowance | (4,342,180) | (2,188,598) |
| Total net deferred tax assets (liabilities) | $ - | $ (168,132) |

The company has federal operating loss carryforwards of $9,282,866 and $0 as of December 31, 2018 and 2017. The company has foreign operating loss carryforwards of $3,203,562 and $2,530,855 as of December 31, 2018 and 2017, respectively. The company has state operating loss carryforwards of $15,001,960 and $9,242,128 as of December 31, 2018 and 2017, respectively. Depending on the jurisdiction, some of these operating loss carryovers will begin to expire within 3 years, while other net operating losses can be carried forward indefinitely as long as the company is operating.

*Valuation Allowance*

We record a deferred tax asset if we believe that it is more likely than not that we will realize a future tax benefit. Ultimate realization of any deferred tax asset is dependent on our ability to generate sufficient future taxable income in the appropriate tax jurisdiction before the expiration of carryforward periods, if any. Our assessment of deferred tax asset recoverability considers many different factors including historical and projected operating results, the reversal of existing deferred tax liabilities that provide a source of future taxable income, the impact of current tax planning strategies and the availability of future tax planning strategies. We establish a valuation allowance against any deferred tax asset for which we are unable to conclude that recoverability is more likely than not. This is inherently judgmental, since we are required to assess many different factors and evaluate as much objective evidence as we can in reaching an overall conclusion. The particularly sensitive component of our evaluation is our projection of future operating results since this relies heavily on our estimates of future revenue and expense levels by tax jurisdiction.

We have established valuation allowances of $4.3 million and $2.2 million as of December 31, 2018 and December 31, 2017, respectively, against certain deferred tax assets given the uncertainty of recoverability of these amounts.

In making our assessment of deferred tax asset recoverability, we considered our historical financial results, our projected future financial results, the planned reversal of existing deferred tax liabilities and the impact of any tax planning actions. Based on our analysis we noted both positive and negative factors relative to our ability to support realization of certain deferred tax assets. However, based on the weighting of all the evidence, including the near-term effect on our income projections of investments we are making in our team, product and systems infrastructure, we concluded that it was more likely than not that the majority of our deferred tax assets related to temporary differences and net operating losses may not be recovered. The establishment of a valuation allowance has no effect on our ability to use the underlying deferred tax assets prior to expiration to reduce cash tax payments in the future to the extent that we generate taxable income.

**Note 9: Defined Contribution Retirement Plan**

Starting in 2016, we offered our U.S. employees the ability to participate in a 401(k) plan. Eligible U.S. employees may contribute up to 100% of their eligible compensation, subject to limitations established by the Internal Revenue Code. The Company contributes a matching contribution equal to 100% of each such participant's contribution up to the first 3% of their annual eligible compensation. We charged $246,461 and $198,783, to expense in the years ended December 31, 2018 and 2017, respectively, associated with our matching contribution.

**Note 10: Related Party Transactions**

Intercompany transactions have been eliminated in our consolidated financial statements. The convertible notes issued in March 2018 are held directly by SHSP Holdings, LLC ("SHSP Holdings"). Daniel C. Allen, a director of SharpSpring Inc., is the founder and manager of Corona Park Investment Partners, LLC ("CPIP"). CPIP is a member of Evercel Holdings, LLC and is a member and sole manager of SHSP Holdings. Evercel, Inc. is a member and the manager of Evercel Holdings, LLC and is a member of SHSP Holdings. There were no other material related party transactions for the years ended December 31, 2018 or 2017.

**Note 11: Stock-Based Compensation**

From time to time, the Company grants stock option awards to officers and employees and grants stock awards to directors as compensation for their service to the Company.

In November 2010, the Company adopted the 2010 Stock Incentive Plan (the "Plan") which was amended in April 2011, August 2013, April 2014, February 2016, March 2017, and June 2018. As amended, up to 2,600,000 shares of common stock are available for issuance under the Plan. The Plan provides for the issuance of stock options and other stock-based awards.

*Stock Options*
Stock option awards under the Plan have a 10-year maximum contractual term and must be issued at an exercise price of not less than 100% of the fair market value of the common stock at the date of grant. The Plan is administered by the Board of Directors, which has the authority to determine to whom options may be granted, the period of exercise and what

other restrictions, if any, should apply. Vesting for option awards granted to date under the Plan have been principally over four years from the date of the grant, with 25% of the award vesting after one year with monthly vesting thereafter.

Option awards are valued based on the grant date fair value of the instruments, net of estimated forfeitures, using a Black-Scholes option pricing model with the following assumptions:

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Volatility | 48% - 49% | 48% - 49% |
| Risk-free interest rate | 2.34% - 3.11% | 1.85% - 2.26% |
| Expected term | 6.25 years | 6.25 years |

The weighted average grant date fair value of stock options granted during the year ended December 31, 2018 was $7.74.

For grants prior to January 1, 2015, the volatility assumption was based on historical volatility of similar sized companies due to lack of historical data of the Company's stock price. For all grants subsequent to January 1, 2015, the volatility assumption reflects the Company's historic stock volatility for the period of February 1, 2014 forward, which is the date the Company's stock started actively trading. The risk free interest rate was determined based on treasury securities with maturities equal to the expected term of the underlying award. The expected term was determined based on the simplified method outlined in Staff Accounting Bulletin No. 110.

Stock option awards are expensed on a straight-line basis over the requisite service period. During the year ended December 31, 2018 and 2017, the Company recognized expense of $801,655 and $510,978, respectively, associated with stock option awards. At December 31, 2018, future stock compensation expense associated with stock options (net of estimated forfeitures) not yet recognized was $2,485,163 and will be recognized over a weighted average remaining vesting period of 3.18 years. The following summarizes stock option activity for the year ended December 31, 2018:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate IntrnisicValue |
|---|---|---|---|---|
| Outstanding at December 31, 2017 | 1,069,330 | $ 5.11 | 7.8 | $ 90,007 |
| Granted | 898,100 | 7.74 | | |
| Exercised | (113,090) | 5.34 | | |
| Expired | (35,481) | 7.60 | | |
| Forfeited | (164,337) | 9.07 | | |
| Outstanding at December 31, 2018 | 1,654,522 | $ 6.07 | 8.2 | $ 10,866,658 |
| Exercisable at December 31, 2018 | 623,649 | $ 5.12 | 7.0 | $ 2,072,937 |

The total intrinsic value of stock options exercised during the year ended December 31, 2018 and 2017 was $607,220 and $34,373 respectively.

*Stock Awards*

During the year ended December 31, 2018 and 2017, the Company issued 23,302 and 60,011 shares, respectively, to non-employee directors as compensation for their service on the board. Such stock awards are immediately vested.

Stock awards are valued based on the closing price of our common stock on the date of grant, and compensation cost is recorded immediately if there is no vesting period or on a straight-line basis over the vesting period. The total fair value of stock awards granted, vested and expensed during the year ended December 31, 2018 and 2017 was $178,022 and $272,976, respectively. As of December 31, 2018, there was no unrecognized compensation cost related to stock awards.

Additionally, during the year ended December 31, 2018, the Company issued 36,274 shares to a service provider to satisfy a performance-based contractual arrangement. The Company recorded an expense of approximately $509,000 associated with this issuance in the third quarter of 2018. These shares were not issued from the 2010 Stock Incentive Plan.

**Note 12: Warrants**

On January 30, 2014, in connection with an $11.5 million financing transaction, the Company issued 80,000 warrants to purchase common stock at an exercise price of $7.81 per share with a term of 5 years. The fair value of the warrants was determined using the Black-Scholes option valuation model. The warrants expire on January 30, 2020 and have a remaining contractual life of 1.1 years as of December 31, 2018. These warrants became exercisable on January 30, 2015.

The following table summarizes information about the Company's warrants at December 31, 2018:

| | Number of Units | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2017 | 80,000 | $ 7.81 | 2.1 | $ 33,660 |
| Granted | - | - | | |
| Exercised | (50,000) | 7.81 | | |
| Cancelled | - | - | | |
| Outstanding at December 31, 2018 | 30,000 | $ 7.81 | 1.1 | $ 144,525 |
| Exercisable at December 31, 2018 | 30,000 | $ 7.81 | 1.1 | $ 144,525 |

No warrants were issued in 2018 or 2017.

**Note 13: Commitments and Contingencies**

*Litigation*

The Company may from time to time be involved in legal proceedings arising from the normal course of business. The Company is not a party to any litigation of a material nature.

*Operating Leases and Service Contracts*

The Company currently rents its primary office facility under a ten-year lease which started in November 2018 (the "2018 Lease"). On April 18, 2018, the Company entered into a lease for the Company's new principal office to lease approximately 25,000 square feet of office space. The 2018 Lease began on, November 1, 2018, the date in which the Company took possession of and occupied the premises for normal business activities. The term may be extended for an additional 5 years in incremental one-year periods, subject to certain conditions described in the 2018 Lease. Base rent for the first year of the 2018 Lease is approximately $619,000, with increases in base rent occurring every two years. In conjunction with the signing of the 2018 Lease, the Company has agreed to assign the lease of our prior primary office (the "2016 Lease") to the landlord from the 2018 Lease (the "Assignment"). If the landlord shall fail to pay the 2016 Lease obligations under the Assignment, the Company will be obligated to pay the obligations, but has a contractual right to reduce its payments to the landlord related to the 2018 Lease by equal amounts.

Most of the Company's service contracts are on a month-to-month basis, however, some contracts and agreements extend out to longer periods. Future minimum lease payments and payments due under non-cancelable service contracts are as follows as of December 31, 2018:

| | |
|---|---|
| 2019 | $ 738,238 |
| 2020 | 742,956 |
| 2021 | 766,546 |
| 2022 | 771,278 |
| 2023 | 794,937 |
| Thereafter | 4,012,539 |
| Total | $ 7,826,495 |

*Sales and Franchise Taxes*

State, local and foreign jurisdictions have differing rules and regulations governing sales, franchise, use, value added and other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of such taxes to SaaS products in various jurisdictions is unclear. Further, these jurisdictions' rules regarding tax nexus vary significantly and are complex. As such, we could face possible tax assessments and audits. A successful assertion, by any of these taxing authorities, that we should be collecting additional sales, use, value added or other taxes in jurisdictions where we have not historically done so and do not accrue for such taxes could result in tax liabilities and related penalties for past sales, discourage customers from purchasing our products or otherwise harm our business and operating results. We are currently evaluating the impact of various tax types which may require future sales, franchise, or other tax payments.

*Employment Agreements*

The Company has employment agreements with several members of its leadership team and executive officers.

**Note 14: Disaggregation of Revenue**

The Company operates as one reporting segment. Operating segments are defined as components of an enterprise for which separate financial information in regularly evaluated by the chief operating decision maker ("CODM"), which is the Company's chief executive officer, in deciding how to allocate resources and assess performance. The Company does not present geographical information about revenues because it is impractical to do so. Disaggregated revenue for the year ended December 31, 2018 and 2017 are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| Revenue by Product: | | |
| Mail + Product Revenue | $ 390,806 | $ 653,316 |
| Marketing Automation Revenue | 18,260,719 | 12,795,436 |
| Total Revenue | $ 18,651,525 | $ 13,448,752 |
| | | |
| Revenue by Type: | | |
| Upfront Fees | $ 1,601,580 | $ 1,100,167 |
| Recurring Revenue | 17,049,945 | 12,348,585 |
| Total Revenue | $ 18,651,525 | $ 13,448,752 |

**Note 15: Cash Flows**

The Statement of Cash Flows consists of cash flows from continuing operations except for $1.0 million from investing activities for the year ending December 31, 2017, noted on the face of the Statement of Cash Flows. This cash flow is the receipt of an escrowed account receivable related to the sale of the SMTP business in 2016 treated as a discontinued operation.

**Note 16: Restructuring**

During the year ended December 31, 2018, in an effort to consolidate operations into the Company headquarters, the Company executed a plan to close its Northeast operations as well as transition of the chief financial officer position to Company headquarters. The Company recorded pre-tax restructuring expenses associated with severance and transition of the CFO

of $252,314.

## INDEX TO EXHIBITS

| Exhibit Number | Title of Document | Location |
|---|---|---|
| 3.1 | Certificate of Incorporation | Incorporated by reference to our Form S-1 filed on December 2, 2010 |
| 3.2 | Amendment to Certificate of Incorporation | Incorporated by reference to our Form 8-K filed on December 17, 2013 |
| 3.3 | Amendment to Certificate of Incorporation | Incorporated by reference to our Form 8-K filed December 1, 2015 |
| 3.4 | Bylaws | Incorporated by reference to our Form S-1 filed on December 2, 2010 |
| 4.1 | Form of Convertible Promissory Note, Attached as Exhibit A to Convertible Note Purchase Agreement among SharpSpring, Inc. and SHSP Holdings, LLC dated March 28, 2018 | Incorporated by reference to our Form 8-K filed March 28, 2018 |
| 4.2 | Form of Investors Rights Agreement by and among SharpSpring, Inc., SHSP Holdings, LLC et al. dated March 28, 2018 | Incorporated by reference to our Form 8-K filed March 28, 2018 |
| 4.3 | Form of Subordination Agreement by and between SHSP Holdings, LLC and Western Alliance Bank dated March 28, 2018 | Incorporated by reference to our Form 8-K filed March 28, 2018 |
| 10.1 | Convertible Note Purchase Agreement among SharpSpring, Inc. and SHSP Holdings, LLC dated March 28, 2018 | Incorporated by reference to our Form 8-K filed March 28, 2018 |
| 10.2 | Extension Agreement dated March 15, 2016, by and between the Company and RCTW, LLC | Incorporated by reference to our Form 8-K filed on March 17, 2016 |
| 10.3 | Asset Purchase Agreement dated August 12, 2014, by and between the Company and RCTW, LLC | Incorporated by reference to our Form 8-K filed on August 15, 2014 |
| 10.4 | Loan Agreement dated March 21, 2016, by and among SharpSpring, Inc., Quattro Hosting LLC, SharpSpring Technologies, Inc. and Western Alliance Bank | Incorporated by reference to our Form 8-K filed on March 22, 2016 |
| 10.5 | Intellectual Property Security Agreement dated March 21, 2016, by and among SharpSpring, Inc., Quattro Hosting LLC, SharpSpring Technologies, Inc. and Western Alliance Bank | Incorporated by reference to our Form 8-K filed on March 22, 2016 |
| 10.6 | Loan and Security Modification Agreement dated June 24, 2016, by and among SharpSpring, Inc., Quattro Hosting LLC, SharpSpring Technologies, Inc. and Western Alliance Bank | Incorporated by reference to our Form 8-K filed on June 28, 2016 |
| 10.7 | Loan and Security Modification Agreement dated October 25, 2017, by and among SharpSpring, Inc., Quattro Hosting LLC, SharpSpring Technologies, Inc. and Western Alliance Bank | Incorporated by reference to our Form 8-K filed on October 30, 2017 |
| 10.8 | Loan and Security Modification Agreement dated April 30, 2018, by and among SharpSpring, Inc., Quattro Hosting LLC, SharpSpring Technologies, Inc. and Western Alliance Bank | Incorporated by reference to the Company's Form 8-K filed on May 1, 2018 |
| 10.9 | SharpSpring, Inc. 2010 Restated Employee Stock Plan | Incorporated by reference to the Company's Form 10-Q filed on August 13, 2018 |
| 10.10 | Asset Purchase Agreement dated June 27, 2016, by and between SharpSpring, Inc. and The Electric Mail Company | Incorporated by reference to our Form 8-K filed June 28, 2016 |
| 10.11 | 2018 Executive Bonus Plan | Incorporated by reference to the Company's Form 8-K filed on February 12, 2018 |
| 10.12 | Richard Carlson Employee Agreement Amendment dated February 8, 2018 | Incorporated by reference to the Company's Form 8-K filed on February 12, 2018 |
| 10.13 | Richard Carlson Employee Agreement Amendment dated March 30, 2017 | Incorporated by reference to the Company's Form 8-K filed on April 5, 2017 |
| 10.14 | Richard Carlson Employee Agreement dated September 13, 2015 | Incorporated by reference to our Form 8-K filed on September 14, 2015 |
| 10.15 | Travis Whitton Employee Agreement Amendment dated February 8, 2018 | Incorporated by reference to the Company's Form 8-K filed on February 12, 2018 |

| | | |
|---|---|---|
| 10.16 | Travis Whitton Employee Agreement Amendment dated July 28, 2017 | Incorporated by reference to the Company's Form 8-K filed on February 12, 2018 |
| 10.17 | Travis Whitton Employee Agreement Amendment dated June 19, 2015 | Incorporated by reference to our Form 8-K filed on July 8, 2016 |
| 10.18 | Edward Lawton Employee Agreement Amendment dated February 8, 2018 | Incorporated by reference to the Company's Form 8-K filed on February 12, 2018 |
| 10.19 | Edward Lawton Employee Agreement Amendment dated July 28, 2017 | Incorporated by reference to the Company's Form 8-K filed on August 1, 2017 |
| 10.20 | Edward Lawton Employee Agreement Amendment dated June 19, 2015 | Incorporated by reference to the Company's Form 8-K filed on June 24, 2015 |
| 10.21 | Edward Lawton Employee Agreement dated August 15, 2014 | Incorporated by reference to the Company's Form 8-K filed on August 18, 2014 |
| 10.22 | Brad Stanczak Employee Agreement dated December 10, 2018 | Incorporated by reference to the Company's Form 8-K filed on November 7, 2018 |
| 10.23 | Office Lease Agreement with Celebration Pointe Office Partners II, LLC dated April 18, 2018 | Incorporated by reference to our Form 8-K filed on April 19, 2018 |
| 10.24 | Assignment of Tenant's Interest and Assumption of Lease with Celebration Pointe Office Partners II, LLC dated April 18, 2018 | Incorporated by reference to our Form 8-K filed on April 19, 2018 |
| 10.25 | Amendment to Office Lease Agreement with Celebration Pointe Office Partners II, LLC dated June 28, 2018 | Incorporated by reference to our Form 10-Q filed on August 13, 2018 |
| 14.1 | Code of Ethics and Business Standards | Incorporated by reference to our Form 8-K filed on January 14, 2014 |
| 21.1 | Subsidiaries of the registrant | Incorporated by reference to Part I – Item 1. Business - Overview of this Form 10-K |
| 23.1 | Consent of Independent Registered Public Accounting Firm – Cherry Bekaert LLP | Filed herewith |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 101.1 | XBRL | Filed herewith |