

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

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended **March 31, 2020**

OR

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

For the transition period from _____ to _____

Commission file number: 001-38834

Verb Technology Company, Inc.

(Exact name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of
Incorporation or Organization)

90-1118043

(I.R.S. Employer
Identification Number)

2210 Newport Boulevard, Suite 200
Newport Beach, California

(Address of principal executive offices)

92663

(Zip Code)

Registrant's telephone number, including area code: (855) 250-2300

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<u>Common Stock, \$0.0001 par value</u> <u>Common Stock Purchase Warrants</u>	<u>VERB</u> <u>VERBW</u>	<u>The Nasdaq Stock Market LLC</u> <u>The Nasdaq Stock Market LLC</u>

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

Yes No

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

Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of May 5, 2020, there were 29,894,621 shares of common stock, \$0.0001 par value per share, outstanding.

EXPLANATORY NOTE

Verb Technology Company, Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-Q/A (this “Form 10-Q/A”) to its original Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 filed with the U.S. Securities and Exchange Commission (the “SEC”) on May 15, 2020 (the “Original Form 10-Q”) to update and correct certain information in (i) Part I, Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and (ii) Part II, Item 1A – “Risk Factors.”

Except as described above, this Form 10-Q/A does not amend, update or change any other items or disclosure in the Original Form 10-Q or reflect events that occurred after the date of the Original Form 10-Q. Therefore, this Form 10-Q/A should be read in conjunction with the Original Form 10-Q and the Company’s other filings made with the SEC subsequent to the filing of the Original Form 10-Q.

VERB TECHNOLOGY COMPANY, INC.
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PART I — FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS (UNAUDITED)

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VERB TECHNOLOGY COMPANY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	<i>March 31, 2020</i>	<i>December 31, 2019</i>
	(unaudited)	
ASSETS		
Current assets:		
Cash	\$ 1,615,000	\$ 983,000
Accounts receivable, net of allowance of \$280,000 and \$230,000, respectively	1,212,000	1,271,000
Inventory, net of allowance of \$0 and \$2,000, respectively	74,000	103,000
Prepaid expenses	249,000	236,000
Total current assets	3,150,000	2,593,000
Right-of-use assets, net of accumulated amortization of \$484,000 and \$349,000 respectively	3,140,000	3,275,000
Property and equipment, net of accumulated depreciation of \$202,000 and \$164,000, respectively	803,000	720,000
Intangible assets, net of accumulated amortization of \$1,300,000 and \$975,000 respectively	5,040,000	5,365,000
Goodwill	16,337,000	16,337,000
Other assets	115,000	69,000
Total assets	\$ 28,585,000	\$ 28,359,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,569,000	\$ 4,338,000
Accrued officers' salary	207,000	207,000
Accrued interest – related parties	107,000	82,000
Advance on future receipts, net of discount of \$137,000 and \$274,000, respectively	457,000	732,000
Notes payable - related party	937,000	112,000
Operating lease liability, current	505,000	391,000
Deferred incentive compensation, current	521,000	-
Deferred revenue and customer deposits	261,000	306,000
Derivative liability	6,907,000	5,048,000
Total current liabilities	14,471,000	11,216,000
Long Term liabilities:		
Note payable - related party, non-current	240,000	1,065,000
Deferred incentive compensation to officers, non-current	521,000	1,042,000
Operating lease liability, non-current	3,432,000	3,591,000
Total liabilities	18,664,000	16,914,000
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.0001 par value, 15,000,000 shares authorized: Series A Convertible Preferred Stock, 6,000 shares authorized; 3,246 and 4,396 issued and outstanding as of March 31, 2020 and December 31, 2019	-	-
Common stock, \$0.0001 par value, 200,000,000 shares authorized, 28,962,589 and 24,496,197 shares issued and outstanding as of March 31, 2020 and December 31, 2019	3,000	2,000
Additional paid-in capital	68,449,000	68,028,000
Accumulated deficit	(58,531,000)	(56,585,000)
Total stockholders' equity	9,921,000	11,445,000
Total liabilities and stockholders' equity	\$ 28,585,000	\$ 28,359,000

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

VERB TECHNOLOGY COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	<u>Three Months Ended March 31, 2020</u>	<u>Three Months Ended March 31, 2019</u>
Revenue		
Digital	\$ 1,457,000	\$ 9,000
Welcome kits and fulfillment	728,000	-
Shipping	169,000	-
	<u>2,354,000</u>	<u>9,000</u>
Cost of revenue		
Digital	230,000	30,000
Welcome kits and fulfillment	676,000	-
Shipping	157,000	-
	<u>1,063,000</u>	<u>30,000</u>
Gross margin	<u>1,291,000</u>	<u>(21,000)</u>
Operating expenses:		
Research and development	1,274,000	564,000
Depreciation and amortization	363,000	4,000
General and administrative	3,514,000	2,185,000
Total operating expenses	<u>5,151,000</u>	<u>2,753,000</u>
Loss from operations	<u>(3,860,000)</u>	<u>(2,774,000)</u>
Other income (expense), net		
Other expense, net	(6,000)	-
Financing costs	-	(84,000)
Interest expense - amortization of debt discount	(137,000)	(1,054,000)
Change in fair value of derivative liability	2,092,000	944,000
Interest expense	(35,000)	(40,000)
Total other income (expense), net	<u>1,914,000</u>	<u>(234,000)</u>
Net loss	(1,946,000)	(3,008,000)
Deemed dividends to Series A stockholders	<u>(3,951,000)</u>	<u>-</u>
Net loss attributed to common stockholders	<u>\$ (5,897,000)</u>	<u>\$ (3,008,000)</u>
Loss per share to common stockholders - basic and diluted	\$ (0.23)	\$ (0.25)
Weighted average number of common shares outstanding - basic and diluted	<u>25,992,426</u>	<u>12,239,044</u>

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

VERB TECHNOLOGY COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE
THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2019	4,396	\$ -	24,496,197	\$ 2,000	\$ 68,028,000	\$ (56,585,000)	\$ 11,445,000
Sale of common stock from private placement	-	-	3,392,833	1,000	3,429,000	-	3,430,000
Fair value of warrants issued to Series A Preferred stockholders	-	-	-	-	(3,951,000)	-	(3,951,000)
Conversion of Series A Preferred to common stock	(1,150)	-	741,933	-	-	-	-
Fair value of common shares issued for services	-	-	320,601	-	321,000	-	321,000
Fair value of vested restricted stock awards	-	-	11,025	-	241,000	-	241,000
Fair value of vested stock options	-	-	-	-	381,000	-	381,000
Net loss	-	-	-	-	-	(1,946,000)	(1,946,000)
Balance at March 31, 2020	3,246	\$ -	28,962,589	\$ 3,000	\$ 68,449,000	\$ (58,531,000)	\$ 9,921,000

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

VERB TECHNOLOGY COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) FOR THE
THREE MONTHS ENDED MARCH 31, 2019
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2018	-	\$ -	12,055,491	\$ 1,000	\$ 35,611,000	\$ (40,667,000)	\$ (5,055,000)
Common shares issued upon exercise of warrants	-	-	148,714	-	-	-	-
Fair value of common stock upon issuance of convertible debt	-	-	16,667	-	128,000	-	128,000
Fair value of common shares issued for services	-	-	39,998	-	388,000	-	388,000
Beneficial holder round up	-	-	83,581	-	-	-	-
Fair value of vested stock options	-	-	-	-	463,000	-	463,000
Net loss	-	-	-	-	-	(3,008,000)	(3,008,000)
Balance at March 31, 2019	-	\$ -	12,344,451	\$ 1,000	\$ 36,590,000	\$ (43,675,000)	\$ (7,084,000)

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

VERB TECHNOLOGY COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended	
	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Operating Activities:		
Net loss	\$ (1,946,000)	\$ (3,008,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Fair value of common shares issued for services and vested stock options and warrants	943,000	851,000
Financing costs	-	84,000
Amortization of debt discount	137,000	1,054,000
Change in fair value of derivative liability	(2,092,000)	(944,000)
Depreciation and amortization	363,000	4,000
Amortization of right-of-use assets	135,000	-
Allowance for inventory	(2,000)	-
Allowance for doubtful account	50,000	-
Effect of changes in assets and liabilities:		
Accounts receivable	9,000	(6,000)
Prepaid expenses	(12,000)	(129,000)
Inventory	30,000	-
Other assets	(45,000)	(44,000)
Accounts payable, accrued expenses, and accrued interest	255,000	1,047,000
Operating lease liability	(47,000)	-
Deferred revenue and customer deposits	(44,000)	2,000
Net cash used in operating activities	<u>(2,266,000)</u>	<u>(1,089,000)</u>
Investing Activities:		
Purchase of property and equipment	(121,000)	-
Net cash used by investing activities	<u>(121,000)</u>	<u>-</u>
Financing Activities:		
Proceeds from sale of common stock	3,430,000	-
Proceeds from notes payable	-	350,000
Proceeds from convertible note payable	-	432,000
Payment of related party notes payable	-	58,000
Payment of advances of future receipts	(411,000)	-
Deferred offering costs	-	(326,000)
Net cash provided by financing activities	<u>3,019,000</u>	<u>514,000</u>
Net change in cash	632,000	(575,000)
Cash - beginning of period	<u>983,000</u>	<u>634,000</u>
Cash - end of period	<u>\$ 1,615,000</u>	<u>\$ 59,000</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 10,000	\$ 32,000
Supplemental disclosure of non-cash investing and financing activities:		
Fair value of derivative liability from issuance of convertible debt, inducement shares and warrant features	\$ -	\$ 388,000
Fair value of derivative liability from issuance of warrants to Series A stockholders considered as a deemed dividend	\$ 3,951,000	-
Fair value of common shares, warrants and beneficial conversion feature of issued convertible note	\$ -	\$ 128,000

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

VERB TECHNOLOGY COMPANY, INC.
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2020 and 2019
(Unaudited)

1. DESCRIPTION OF BUSINESS

Organization

References in this document to the “Company,” “Verb,” “we,” “us,” or “our” are intended to mean Verb Technology Company, Inc., individually, or as the context requires, collectively with its subsidiary on a consolidated basis.

Cutaia Media Group, LLC (“CMG”) was organized as a limited liability company under the laws of the State of Nevada on December 12, 2012. On May 19, 2014, CMG merged into bBooth, Inc. and bBooth, Inc., thereafter, changed its name to bBooth (USA), Inc., effective as of October 16, 2014. The operations of CMG and bBooth (USA), Inc., became known as, and are referred to in this Annual Report as, “bBoothUSA.”

On October 16, 2014, bBoothUSA was acquired by Global System Designs, Inc. (“GSD”), pursuant to a Share Exchange Agreement entered into with GSD (the “Share Exchange Agreement”). GSD was incorporated in the State of Nevada on November 27, 2012. The acquisition was accounted for as a reverse merger transaction. In connection with the closing of the transactions contemplated by the Share Exchange Agreement, GSD’s management was replaced by bBoothUSA’s management, and GSD changed its name to bBooth, Inc.

Effective April 21, 2017, we changed our corporate name from bBooth, Inc. to nFüsz, Inc. The name change was effected through a parent/subsidiary short-form merger of nFüsz, Inc., our wholly-owned Nevada subsidiary, formed solely for the purpose of the name change, with and into us.

Effective February 1, 2019, we changed our corporate name from nFüsz, Inc. to Verb Technology Company, Inc. The name change was effected through a parent/subsidiary short-form merger of Verb Technology Company, Inc., our wholly-owned Nevada subsidiary, formed solely for the purpose of the name change, with and into us.

On February 1, 2019, we implemented a 1-for-15 reverse stock split (the “Reverse Stock Split”) of our common stock, \$0.0001 par value per share (the “Common Stock”). The Reverse Stock Split became effective upon commencement of trading of our Common Stock on February 4, 2019. As a result of the Reverse Stock Split, every fifteen (15) shares of our pre-Reverse Stock Split Common Stock were combined and reclassified into one share of our Common Stock. The number of shares of Common Stock subject to outstanding options, warrants, and convertible securities were also reduced by a factor of fifteen as of February 1, 2019. All historical share and per-share amounts reflected throughout our consolidated financial statements and other financial information in this Annual Report have been adjusted to reflect the Reverse Stock Split. The par value per share of our Common Stock was not affected by the Reverse Stock Split.

Nature of Business

We are a Software-as-a-Service (“SaaS”) applications platform developer. Our platform is comprised of a suite of sales enablement business software products marketed on a subscription basis. Our applications, available in both mobile and desktop versions, are offered as a fully integrated suite, as well as on a standalone basis, and include verbCRM, our Customer Relationship Management application, verbLEARN, our Learning Management System application, and verbLIVE, our Live Broadcast Video Webinar application.

We also provided certain non-digital services to some of our enterprise clients such as printing and fulfillment services. We designed and printed welcome kits and starter kits for their marketing needs and provided fulfillment services, which consisted of managing the preparation, handling and shipping of our client’s custom-branded merchandise they use for marketing purposes at conferences and other events, and product sample packs that verbCRM users order through the app for automated delivery and tracking to their customers and prospects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on May 14, 2020. The condensed consolidated balance sheet as of December 31, 2019 included herein was derived from the audited consolidated financial statements as of that date.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company’s financial position and results of operations for the interim periods reflected. Except as noted, all adjustments contained herein are of a normal recurring nature. Results of operations for the fiscal periods presented herein are not necessarily indicative of fiscal year-end results.

Principles of Consolidation

The consolidated financial statements include the accounts of Verb Technology Company, Inc. and Verb Direct, LLC, its wholly owned subsidiary. Intercompany transactions have been eliminated in the consolidation.

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, during the three months ended March 31, 2020, the Company incurred a net loss of \$1,946,000 and used cash in operations of \$2,266,000. These factors raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date of the financial statements being issued. The ability of the Company to continue as a going concern is dependent upon the Company’s ability to raise additional funds and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. In addition, the Company’s independent registered public accounting firm, in its report on the Company’s December 31, 2019 consolidated financial statements, has raised substantial doubt about the Company’s ability to continue as a going concern.

As of March 31, 2020, we had cash on hand of \$1,615,000 and subsequently received \$1,014,000 from a private placement offering that closed in March 2020 and \$1,218,000 from the Paycheck Protection Program. We believe we have sufficient cash to sustain operations through September 2020. Our continuation as a going concern is dependent on our ability to obtain additional financing until we can generate sufficient cash flows from operations to meet our obligations. We intend to continue to seek additional debt or equity financing to continue our operations. There is no assurance that we will ever be profitable or that debt or equity financing will be available to us. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should we be unable to continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported periods. Significant estimates include assumptions made in analysis of reserves for allowance of doubtful accounts, inventory, purchase price allocations, impairment of long-term assets, realization of deferred tax assets, determining fair value of derivative liabilities, and valuation of equity instruments issued for services. Amounts could materially change in the future.

Concentration of Credit and Other Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable. Cash is deposited with a limited number of financial institutions. The balances held at any one financial institution at times may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits of up to \$250,000.

The Company extends limited credit to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts and sales credits. The Company believes that any concentration of credit risk in its accounts receivable is substantially mitigated by the Company's evaluation process, relatively short collection terms and the high level of credit worthiness of its customers.

The Company's concentration of credit risk includes its concentrations from key customers and vendors. As of March 31, 2020, we have one major customer that accounted for 11% of our accounts receivable individually and in aggregate.

Revenue Recognition

The Company derives its revenue primarily from providing application services through the SaaS application, digital marketing and sales support services, from the sale of customized print products and training materials, branded apparel, and digital tools, as demanded by its customers. The subscription revenue from the application services are recognized over the life of the estimated subscription period. The Company also charges certain customers setup or installation fees for the creation and development of websites and phone application. These fees are accounted as part of deferred revenue and amortized over the estimated life of the agreement. Amounts related to shipping and handling that are billed to customers are reflected as part of revenue, and the related costs are reflected in cost of revenue in the accompanying Statements of Operations.

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers ("ASC 606"). The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (1) identifying the contract(s) or agreement(s) with a customer, (2) identifying our performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. Pursuant to ASC 606, revenue is recognized when performance obligations under the terms of a contract are satisfied, which occurs for the Company upon shipment or delivery of products or services to our customers based on written sales terms, which is also when control is transferred. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring the products or services to a customer.

The products sold by us are distinctly individual. The products are offered for sale solely as finished goods, and there are no performance obligations required post-shipment for customers to derive the expected value from them. Other than promotional activities, which can vary from time to time but nevertheless are entirely within the Company's control, contracts with customers contain no incentives or discounts that could cause revenue to be allocated or adjusted over time.

The control of products we sell transfers to our customers upon shipment from our facilities, and our performance obligations are satisfied at that time. Shipping and handling activities are performed before the customer obtains control of the goods and, therefore, represent a fulfillment activity rather than promised goods to the customer. Payment for sales are generally made by check, credit card, or wire transfer. Historically, we have not experienced any significant payment delays from customers.

We allow returns within 30 days of purchase from end-users. Our customers may return purchased products to us under certain circumstances.

Customers setup or installation fees for the creation and development of websites and phone application are recognized as revenue over the estimated subscription period. Design assets of the websites and phone application are recognized when the work is completed. Licensing revenue is recognized over the estimated subscription period. In addition, certain revenue is recorded based upon stand-alone selling prices and is primarily recognized when the customer uses these services, based on the quantity of services rendered, such as number of customer usage.

A description of our principal revenue generating activities is as follows:

Digital Sales – We offer cloud-based business software on a subscription basis. Subscriptions are paid in advance of the services or billed 30 days in arrears of the subscription period. The revenue is recognized over the subscription period.

Welcome kits – We offer design and printing services to create corporate starter kits that our clients use for their marketing needs. The revenue is recognized upon completion and shipment of the welcome kits.

Fulfillment – We offer print on demand and fulfillment services of various custom products our clients use for marketing purposes. The revenue is recognized upon completion and shipment of the products.

Shipping – We charge our customers the costs related to the shipping of their welcome kits and fulfillment products. The revenue is recognized when the welcome kits or fulfillment products are shipped.

Cost of Revenue

Cost of revenue primarily consists of the salaries of certain employees, purchase price of consumer products, digital content costs, packaging supplies, and customer shipping and handling expenses. Shipping costs to receive products from our suppliers are included in our inventory and recognized as cost of sales upon sale of products to our customers.

Long-Lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. Based on Management's assessment, there were no indicators of impairment at March 31, 2020 or December 31, 2019.

Derivative Financial Instruments

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The Company uses Level 2 inputs for its valuation methodology for the derivative liabilities as their fair values were determined by using a Binomial pricing model. The Company's derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjusted to fair value of derivatives.

Share Based Payments

The Company issues stock options and warrants, shares of Common Stock, and equity interests as share-based compensation to employees and non-employees. The Company accounts for its share-based compensation to employees in accordance with the Financial Accounting Standards Board's ("FASB") ASC 718, Compensation – Stock Compensation. Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period.

Net Loss Per Share

Basic net loss per share is computed by using the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed giving effect to all dilutive potential shares of Common Stock that were outstanding during the period. Dilutive potential shares of Common Stock consist of incremental shares of Common Stock issuable upon exercise of stock options. No dilutive potential shares of Common Stock were included in the computation of diluted net loss per share because their impact was anti-dilutive. As of March 31, 2020, and 2019, the Company had total outstanding options of 4,417,108 and 2,457,974, respectively, and warrants of 13,651,050 and 778,446, respectively, and outstanding restricted stock awards of 1,475,329 and 0, which were excluded from the computation of net loss per share because they are anti-dilutive.

Goodwill and other Intangibles

In accordance with FASB ASC Topic No. 350, Intangibles-Goodwill and Other, the Company reviews the recoverability of the carrying value of goodwill and other Intangible assets at least annually or whenever events or circumstances indicate a potential impairment. The Company's impairment testing will be done annually. Recoverability of goodwill is determined by comparing the fair value of Company's reporting units to the carrying value of the underlying net assets in the reporting units. If the fair value of a reporting unit is determined to be less than the carrying value of its net assets, goodwill is deemed impaired and an impairment loss is recognized to the extent that the carrying value of goodwill exceeds the difference between the fair value of the reporting unit and the fair value of its other assets and liabilities.

The acquisition of Verb Direct, formerly Sound Concepts, occurred on April 12, 2019. The Company will perform its first impairment test in December 2020.

Fair Value of Financial Instruments

The Company follows the guidance of FASB ASC 825 for disclosures about fair value of its financial instruments and ASC 820 to measure the fair value of its financial instruments. ASC 820 establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, ASC 820 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three (3) levels of fair value hierarchy defined by ASC 820 are described below:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amount of the Company's financial assets and liabilities, such as cash and cash equivalents, prepaid expenses, and accounts payable and accrued expenses approximate their fair value due to their short-term nature. The carrying values financing obligations approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates. The Company uses Level 2 inputs for its valuation methodology for the derivative liabilities.

Segments

The Company has various revenue channels. In accordance with the "Segment Reporting" Topic of the ASC, the Company's chief operating decision maker (the Company's Chief Executive Officer) reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under "Segment Reporting" due to (i) their similar customer base and (ii) the Company having a single sales team, marketing department, customer service department, operations department, finance department, and accounting department to support all revenue channels. Since the Company operates in one segment, all financial information required by "Segment Reporting" can be found in the accompanying condensed consolidated financial statements.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments ("ASC 326"). The standard significantly changes how entities will measure credit losses for most financial assets, including accounts and notes receivables. The standard will replace today's "incurred loss" approach with an "expected loss" model, under which companies will recognize allowances based on expected rather than incurred losses. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. As small business filer, the standard will be effective for us for interim and annual reporting periods beginning after December 15, 2022. Management is currently assessing the impact of adopting this standard on the Company's financial statements and related disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

3. ACQUISITION OF VERB DIRECT

On April 12, 2019, Verb completed its acquisition of Verb Direct on the terms set forth in the Merger Agreement, at the effective time of the merger, each share of Sound Concepts Capital Stock issued and outstanding immediately prior to the effective time, was cancelled in exchange for cash payment by Verb of an aggregate of \$15,000,000, and the issuance of an aggregate of 3,327,791 restricted shares of Verb's Common Stock with a fair value of \$7,820,000 at the closing date of the transaction.

The acquisition was intended to augment and diversify Verb's internet and SaaS business. Key factors that contributed to the recorded goodwill and intangible assets in the aggregate of \$22,677,000 were the opportunity to consolidate and complement existing operations of Verb, certain software and customer list, and the opportunity to generate future synergies within the internet and SaaS business. The following table summarizes the assets acquired, liabilities assumed and purchase price allocation:

<u>Assets Acquired:</u>			
Other current assets	\$	2,004,000	
Property and equipment		58,000	
Other assets		<u>1,302,000</u>	\$ 3,364,000
<u>Liabilities Assumed:</u>			
Current liabilities		(2,153,000)	
Long-term liabilities		<u>(1,068,000)</u>	(3,221,000)
Intangible assets			6,340,000
Goodwill			<u>16,337,000</u>
Purchase Price			<u>\$ 22,820,000</u>

The goodwill recognized in connection with the acquisition is primarily attributable to anticipated synergies from future growth and is not expected to be deductible for tax purposes. Goodwill is not amortized but will be tested for impairment on an annual basis.

The intangible assets, which consist of developed technology of \$4,700,000 are being amortized over 5-years, customer relationships of \$1,200,000 are being amortized on an accelerated basis over its estimated useful life of 5 years and domain names of \$440,000 are determined to have infinite lives but will be tested for impairment on an annual basis.

During the period ended March 31, 2020, the Company recorded amortization expense of \$325,000. As of March 31, 2020, the remaining unamortized balance of the intangible assets was \$5,040,000.

The following comparative unaudited statements of operations present the Company's results of operations after giving effect to the purchase of Verb Direct based on the historical financial statements of the Company and Verb Direct. The unaudited pro forma statements of operations for the periods ended March 31, 2020 and 2019 give effect to the transaction to the merger as if it had occurred on January 1, 2019.

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(unaudited)	(Proforma, unaudited)
Digital	\$ 1,457,000	\$ 1,059,000
Welcome kits and fulfilment	728,000	2,265,000
Shipping	169,000	677,000
Total Revenue	2,354,000	4,001,000
Cost of revenue	1,063,000	2,248,000
Gross margin	1,291,000	1,753,000
Operating expenses	5,151,000	4,782,000
Other income (expense), net	1,914,000	(251,000)
Net loss	(1,946,000)	(3,280,000)
Deemed dividends to Series A stockholders	(3,951,000)	-
Net loss attributed to common stockholders	\$ (5,897,000)	\$ (3,280,000)
Loss per share	\$ (0.23)	\$ (0.21)
Weighted average number of common shares outstanding - basic and diluted	25,992,426	15,566,835

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2020 and December 31, 2019.

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Computers	\$ 29,000	\$ 29,000
Furniture and fixture	75,000	75,000
Machinery and equipment	39,000	39,000
Leasehold improvement	862,000	741,000
Total property and equipment	<u>1,005,000</u>	<u>884,000</u>
Accumulated depreciation	<u>(202,000)</u>	<u>(164,000)</u>
Total property and equipment, net	<u>\$ 803,000</u>	<u>\$ 720,000</u>

Depreciation expense amounted to \$38,000 and \$4,000 for three months ended March 31, 2020 and 2019, respectively.

5. RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES

The Company has entered into several leases that are accounted for as operating leases in accordance with ASC 842. The Company currently has four office and warehouse leases in American Fork, Utah related to the operation of Verb Direct with an aggregate lease payment of \$31,000 per month. Each lease expires in December 2023. The lessor of the office and warehouse area is JMCC Properties, which is an entity owned and controlled by the former shareholders and certain current officers of the Company's subsidiary, Verb Direct.

In addition, the Company leases its corporate headquarters located at 2210 Newport Boulevard, Suite 200, Newport Beach, California 92663 under a lease with a term of 94 months. The average monthly base rent for the first 12 months of the Lease is approximately \$7,000 after rent abatement. For the next 82 months of the Lease, the average monthly base rent will be approximately \$39,000. As part of the agreement, the landlord provided leasehold incentive of \$572,000 for the construction of the leasehold improvements. Pursuant to ASC 842, the lease incentive of \$572,000 was recorded as a part of leasehold improvements and a reduction to the right of use assets. The Lease commenced in August 2019.

As March 31, 2020 and December 31, 2019, the Company had recorded right of use assets of \$3,140,000 and \$3,275,000, respectively, net of amortization. As March 31, 2020 and December 31, 2019, the Company had recorded lease liabilities of \$3,937,000 and \$3,982,000, respectively, related to these leases.

	<u>Period Ended March 31, 2020</u>
<u>Lease cost</u>	
Operating lease cost (included in general and administration in the Company's statement of operations)	\$ 175,000
<u>Other information</u>	
Cash paid for amounts included in the measurement of lease liabilities	\$ —
Weighted average remaining lease term – operating leases (in years)	5.11
Average discount rate – operating leases	4.0%
<u>March 31, 2020</u>	
<u>Operating leases</u>	
Right-of-use assets, net of amortization of \$484,000	<u>\$ 3,140,000</u>
Short-term operating lease liabilities	\$ 505,000
Long-term operating lease liabilities	<u>3,432,000</u>
Total operating lease liabilities	<u>\$ 3,937,000</u>

6. ADVANCE OF FUTURE RECEIPTS

The Company has the following advances on future receipts as of March 31, 2020:

Note	Issuance Date	Maturity Date	Interest Rate	Original Borrowing	Balance at March 31, 2020	Balance at December 31, 2019
Note 1	December 24, 2019	June 30, 2020	10%	\$ 506,000	\$ 297,000	\$ 503,000
Note 2	December 24, 2019	June 30, 2020	10%	506,000	297,000	503,000
Total				\$ 1,012,000	594,000	1,006,000
Debt discount					(137,000)	(274,000)
Net					\$ 457,000	\$ 732,000

On December 24, 2019, the Company received two secured advances from an unaffiliated third party totaling \$728,000 for the purchase of future receipts/revenues of \$1,012,000. Pursuant to the terms of the agreement the unaffiliated third-party will auto withdraw an aggregate of \$6,000 from the Company's operating account each banking day. The term of the agreement extends until the advances are paid in full. The Company may pay off either note for \$446,000 if paid within 30 days of funding; for \$465,000 if paid between 31 and 60 days of funding; or for \$484,000 if paid within 61 to 90 days of funding. These advances are secured by the Company's tangible and intangible assets.

As of December 31, 2019, the balance outstanding was \$1,006,000 and the unamortized balance of the debt discount was \$274,000.

During the period ended March 31, 2020, the Company repaid \$411,000 and amortized the debt discount of \$137,000. As of March 31, 2020, the outstanding balance of advances amounted to \$594,000 and unamortized debt discount of \$137,000.

7. NOTES PAYABLE – RELATED PARTIES

The Company has the following related parties notes payable as of March 31, 2020 and December 31, 2019:

Note	Issuance Date	Maturity Date	Interest Rate	Original Borrowing	Balance at March 31, 2020	Balance at December 31, 2019
Note 1 (A)	December 1, 2015	February 8, 2021	12.0%	\$ 1,249,000	\$ 825,000	\$ 825,000
Note 2 (B)	December 1, 2015	April 1, 2017	12.0%	112,000	112,000	112,000
Note 3 (C)	April 4, 2016	June 4, 2021	12.0%	343,000	240,000	240,000
Total notes payable – related parties					1,177,000	1,177,000
Non-current					(240,000)	(1,065,000)
Current					\$ 937,000	\$ 112,000

(A) On December 1, 2015, the Company issued a convertible note payable to Mr. Rory J. Cutaia, the Company's majority stockholder and Chief Executive Officer, to consolidate all loans and advances made by Mr. Cutaia to the Company as of that date. The note bears interest at a rate of 12% per annum, secured by the Company's assets, and will mature on February 8, 2021, as amended.

As of March 31, 2020, and December 31, 2019, the outstanding balance of the note amounted to \$825,000, respectively.

(B) On December 1, 2015, the Company issued a note payable to a former member of the Company's board of directors, in the amount of \$112,000, representing unpaid consulting fees as of November 30, 2015. The note is unsecured, bears interest rate of 12% per annum, and matured in April 2017. As of March 31, 2020, and December 31, 2019, the outstanding principal balance of the note was equal to \$112,000, respectively. As of March 31, 2020, the note was past due, and remains past due. The Company is currently in negotiations with the noteholder to settle the past due note.

(C) On April 4, 2016, the Company issued a convertible note to Mr. Cutaia, in the amount of \$343,000, to consolidate all advances made by Mr. Cutaia to the Company during the period December 2015 through March 2016. The note bears interest at a rate of 12% per annum, is secured by the Company's assets, and will mature on June 4, 2021, as amended.

As of March 31, 2020, and December 31, 2019, the outstanding balance of the note amounted to \$240,000, respectively.

Total interest expense for notes payable to related parties was \$35,000 for three months ended March 31, 2020 and 2019, respectively. The Company paid \$10,000 and \$32,000 in interest for the three months ended March 31, 2020 and 2019, respectively.

8. DEFERRED INCENTIVE COMPENSATION TO OFFICERS

Note	Date	Payment Date	Balance at March 31, 2020	Balance at December 31, 2019
Rory Cutaia (A)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	\$ 430,000	\$ 430,000
Rory Cutaia (B)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	324,000	324,000
Jeff Clayborne (A)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	125,000	125,000
Jeff Clayborne (B)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	163,000	163,000
Total			1,042,000	1,042,000
Non-current			(521,000)	(1,042,000)
Current			\$ 521,000	\$ -

(A) On December 23, 2019, the Company awarded Rory Cutaia, Chief Executive Officer and Jeff Clayborne, Chief Financial Officer Annual Incentive Compensation of \$430,000 and 125,000, respectively for services rendered. The Company has determined that it is in its best interest and in the best interest of its stockholders to defer payments to the Employees. The Company will pay 50% of the Annual Incentive Compensation on January 10, 2021 and the remaining 50% on January 10, 2022.

(B) On December 23, 2019, the Company awarded Rory Cutaia, Chief Executive Officer and Jeff Clayborne, Chief Financial Officer received a bonus for the successful Up-Listing to Nasdaq and Acquisition of Verb Direct during fiscal 2019, totaling \$324,000 and \$162,000, respectively. The Company has determined that it is in its best interest and in the best interest of its stockholders to defer payments to the Employees. The Company will pay 50% of the Nasdaq Up-Listing Award on January 10, 2021 and the remaining 50% on January 10, 2022.

9. CONVERTIBLE SERIES A PREFERRED STOCK and WARRANT OFFERING

On August 14, 2019, we entered into the SPA with the Preferred Purchasers, pursuant to which we agreed to issue and sell to the Preferred Purchasers up to an aggregate of 6,000 shares of Series A Preferred Stock (which, at the initial conversion price, are convertible into an aggregate of up to approximately 3.87 million shares of Common Stock) and the August Warrants to purchase up to an equivalent number of shares of Common Stock. We closed the offering on August 14, 2019, and issued 5,030 shares of Series A Preferred Stock and granted the August Warrants to purchase up to 3,245,162 shares of Common Stock in connection therewith. We received proceeds of \$4,688,000, net of direct costs of \$342,000.

The SPA grants the Preferred Purchasers a right to participate, up to a certain amount, in subsequent financings for a period of 24 months. The SPA also prohibits us from entering into any agreement to issue, or announcing the issuance or proposed issuance, of any shares of Common Stock or Common Stock equivalents for a period of 90 days after the date that the registration statement, registering the shares issuable upon conversion of the Series A Preferred Stock and exercise of the August Warrants, is declared effective. We are also prohibited, until the date that the Preferred Purchasers no longer collectively hold at least 20% of the then-outstanding shares of Series A Preferred Stock issued pursuant to the SPA, from entering into an agreement to effect any issuance by us of Common Stock or Common Stock equivalents involving certain variable rate transactions. We also cannot enter into agreements related to "at-the-market" transactions for a period of 12 months. At the later of (i) the date that the August Warrants are fully exercised, and (ii) 12 months from the date of the SPA, we cannot draw down on any existing or future agreement with respect to "at-the-market" transactions if the sale of the shares in such transactions has a per share purchase price that is less than \$3.76 (two times the exercise price of the Warrants).

Each share of Series A Preferred Stock is convertible, at any time and from time to time from and after the issuance date, at the holder's option in to that number of shares of Common Stock equal to the stated value per share (or \$1,000) divided by the conversion price (initially, \$1.55); thus, initially, each share of Series A Preferred Stock is convertible into approximately 645 shares of Common Stock. In certain circumstances, the Series A Preferred Stock is mandatorily convertible into shares of Common Stock after the Company obtains stockholder approval to issue a number of shares of Common Stock in excess of 19.99% and the closing price of the Common Stock is 100% greater than the then-base conversion price on each trading day for any 20 trading days during a consecutive 30-trading-day period.

During the period ended March 31, 2020, 1,150 shares of Preferred Stock were converted into 741,933 shares of Common Stock. As of March 31, 2020, 3,246 shares Series A Preferred stock are outstanding.

10. DERIVATIVE LIABILITY

Under authoritative guidance used by the FASB on determining whether an instrument (or embedded feature) is indexed to an entity's own stock, instruments that do not have fixed settlement provisions are deemed to be derivative instruments. The Company granted certain warrants that included a fundamental transaction provision that could give rise to an obligation to pay cash to the warrant holder.

As a result, the warrants are classified as liabilities and are bifurcated from the debt host and accounted for as a derivative liability in accordance with ASC 815 and will be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The derivative liabilities were valued using a Binomial pricing model with the following average assumptions:

	March 31, 2020	Upon Issuance	December 31, 2019
Stock Price	\$ 1.26	\$ 1.70	\$ 1.55
Exercise Price	\$ 1.66	\$ 1.55	\$ 1.88
Expected Life	3.27	5.0	3.53
Volatility	211%	212%	216%
Dividend Yield	0%	0%	0%
Risk-Free Interest Rate	2.22%	2.47%	1.64%
Fair Value	\$ 6,907,000	\$ 3,951,000	\$ 5,048,000

The expected life of the warrants was based on the remaining contractual term. The Company uses the historical volatility of its Common Stock to estimate the future volatility for its Common Stock. The expected dividend yield was based on the fact that the Company has not paid dividends in the past and does not expect to pay dividends in the future. The risk-free interest rate was based on rates established by the Federal Reserve Bank. As of December 31, 2019, the Company had recorded a derivative liability of \$5,048,000.

During the period ended March 31, 2020, the Company recorded derivative liability of \$3,951,000 as a result of the issuance of warrants to Series A Preferred stockholders (see Note 11). The Company also recorded a change in fair value of (\$2,092,000) to account for the changes in the fair value of these derivative liabilities during the period ended March 31, 2020. At March 31, 2020, the fair value of the derivative liability amounted to \$6,907,000. The details of derivative liability transactions as of and for the periods ended March 31, 2020 and 2019 are as follows:

	March 31, 2020	March 31, 2019
Beginning Balance	\$ 5,048,000	\$ 2,576,000
Fair value upon issuance of notes payable and warrants	3,951,000	388,000
Change in fair value	(2,092,000)	(944,000)
Ending Balance	\$ 6,907,000	\$ 2,020,000

11. EQUITY TRANSACTIONS

The Company's Common Stock activity for the three months ended March 31, 2020 is as follows:

Common Stock

Shares Issued as Part of the Company's Private Placement

On February 5, 2020, the Company initiated a private placement, which is for the sale and issuance of up to five million shares of its Common Stock at a per-share price of \$1.20, which amount represents a 20% discount to the \$1.50 closing price of the Company's Common Stock on that day, and is memorialized by a subscription agreement.

As a result of this private placement, from February 25 through March 31, 2020, a total of 4,237,833 shares of Common Stock were subscribed. Total subscribed shares of 3,392,833 shares of Common Stock were issued with net cash proceeds of \$3,430,000 after direct costs received as of March 31, 2020. The remaining subscribed shares of 845,000 shares of Common Stock were issued in April and May 2020 upon receipt of cash proceeds of \$1,014,000.

The Company's private placement is exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, in reliance on Section 4(a)(2) thereof and/or Rule 506 of Regulation D and Regulation S thereunder, each as promulgated by the SEC. The Company's private placement was managed by the Company; however, in connection with the closings, the Company paid a non-U.S. based consultant (i) as a cash fee, an aggregate amount of \$499,000 (or 10% of the gross proceeds of the closings), (ii) as a non-accountable expense allowance, an aggregate of \$100,000 (or 2% of the gross proceeds of the closings), (iii) five-year warrants, exercisable for an aggregate of up to 416,199 shares of the Company's Common stock at a cash-only exercise price of \$1.92 per share, and (iv) 100,000 shares of the Company's Common Stock. The Company made the above-referenced payments only in respect of that portion of the gross proceeds from the closings for investors introduced to the Company by the consultant. In addition, the Company also incurred various expenses totaling \$42,000 that are directly related to this private placement.

In preparation for this private placement offering, the Company separately negotiated with certain Series A stockholders to waive their rights in order not to ratchet down the conversion price of their Series A preferred shares (see Note 9). In return for the waiver, the Company granted these Series A stockholders warrants to purchase 2,303,861 shares of Common Stock. The warrants are exercisable in August 2020, expire in 5 years and are exercisable at \$1.20 per share, as adjusted. The exercise price is subject to certain customary adjustments, including subsequent equity sales and rights offerings. In addition, the warrants also included a fundamental transaction provision that could give rise to an obligation to pay cash to the warrant holder. As a result of this fundamental transaction provision, the warrants were accounted as derivative liability with a fair value upon issuance of \$3,951,000 upon issuance. The Company accounted the fair value of \$3,951,000 as a deemed dividend since if the down round provision of the Series A preferred shares had occurred, it would have been accounted as a deemed dividend due to it providing additional value to the Series A stockholders.

Shares Issued for Services

During the period ended March 31, 2020, the Company issued 220,601 shares of Common Stock to vendors for services rendered with a fair value of \$321,000. These shares of Common Stock were valued based on the market value of the Company's Common Stock price at the issuance date or the date the Company entered into the agreement related to the issuance. As previously discussed, the Company also issued 100,000 shares of common stock to a consultant for services rendered as a result of a private placement offering in February and March 2020.

12. RESTRICTED STOCK AWARDS

On December 20, 2019, we held the 2019 Annual Meeting of Stockholders (the "Meeting"), at which our stockholders approved and adopted the Verb Technology Company, Inc. 2019 Omnibus Incentive Plan (the "Plan").

A summary of restricted stock award activity for the three months ended March 31, 2020 is presented below.

	<u>Shares</u>	<u>Weighted- Weighted- Average Grant Date Fair Value</u>
Non-vested at December 31, 2019	1,486,354	\$ 1.36
Granted	-	-
Vested	(11,025)	1.36
Forfeited	-	-
Non-vested at March 31, 2020	<u>1,475,329</u>	<u>\$ 1.36</u>

The total fair value of restricted stock award that vest during the three months ended March 31, 2020 was \$241,000 and is included in selling, general and administrative expenses in the accompanying statements of operations. As of March 31, 2020, the amount of unvested compensation related to issuances of restricted stock award was \$1,758,000 which will be recognized as an expense in future periods as the shares vest.

13. STOCK OPTIONS

Effective October 16, 2014, the Company adopted the 2014 Stock Option Plan (the “Plan”) under the administration of the board of directors to retain the services of valued key employees and consultants of the Company.

At its discretion, the Company grants share option awards to certain employees and non-employees under the Plan and accounts for it in accordance with ASC 718, Compensation – Stock Compensation.

A summary of option activity for the three months ended March 31, 2020 is presented below.

	<u>Options</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2019	4,233,722	\$ 1.75	2.54	\$ 995,000
Granted	185,887	1.39	-	-
Forfeited	(2,501)	1.36	-	-
Exercised	-	-	-	-
Outstanding at March 31, 2020	<u>4,417,108</u>	<u>\$ 1.72</u>	<u>2.54</u>	<u>\$ 143,000</u>
Vested March 31, 2020	1,820,725	\$ 1.75		\$ 28,000
Exercisable at March 31, 2020	1,337,946	\$ 2.19		\$ 26,000

During the three months ended March 31, 2020 the Company granted stock options to employees to purchase a total of 185,887 shares of Common Stock for services to be rendered. The options have an average exercise price of \$1.39 per share, expire in five years, and vests in 4 equal installments during the four years from the grant date. The total fair value of these options at the grant date was approximately \$246,000 using the Black-Scholes Option pricing model.

The total stock compensation expense recognized relating to vesting of stock options for the three months ended March 31, 2020 amounted to \$381,000. As of March 31, 2020, total unrecognized stock-based compensation expense was \$4.0 million, which is expected to be recognized as part of operating expense through March 2024.

The fair value of share option award is estimated using the Black-Scholes option pricing method based on the following weighted-average assumptions:

	<u>Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Risk-free interest rate	0.39%	2.75%
Average expected term	5 years	5 years
Expected volatility	270.1%	201.3%
Expected dividend yield	-	-

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of measurement corresponding with the expected term of the share option award; the expected term represents the weighted-average period of time that share option awards granted are expected to be outstanding giving consideration to vesting schedules and historical participant exercise behavior; the expected volatility is based upon historical volatility of the Company’s Common Stock; and the expected dividend yield is based on the fact that the Company has not paid dividends in the past and does not expect to pay dividends in the future.

14. WARRANTS

The Company has the following warrants outstanding as of March 31, 2020, all of which are exercisable:

	<u>Warrants</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2019	10,930,990	\$ 3.07	4.25	\$ -
Granted	2,720,060	1.31	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Outstanding at March 31, 2020, all vested	<u>13,651,050</u>	<u>\$ 2.72</u>	<u>4.12</u>	<u>\$ -</u>

At March 31, 2020, the intrinsic value of these stock options was \$0 as the exercise price of these stock warrants were greater than the market price.

During the period ended March 31, 2020, the Company granted 416,199 warrants to a consultant as part of a private placement offering and 2,303,861 warrants to Series A stockholders (see Note 11).

15. COMMITMENTS AND CONTINGENCIES

Litigation

a. EMA Financial, LLC

On April 24, 2018, EMA Financial, LLC (“EMA”), commenced an action against the Company, styled as EMA Financial, LLC, a New York limited liability company, Plaintiff, against nFUSZ, Inc., Defendant, United States District Court, Southern District of New York, case number 1:18-cv-03634-NRB. The complaint sets forth four causes of action and seeks money damages, injunctive relief, liquidated damages, and declaratory relief related to the Company’s refusal to agree to EMA’s interpretation of a cashless exercise provision in a common stock warrant we granted to EMA in December 2017. The Company interposed several counterclaims, including a claim for reformation of the underlying agreements to reflect the Company’s interpretation of the cashless exercise provision. Both parties moved for summary judgment. On March 16, 2020, the United States District Court entered a decision agreeing with the Company’s position, denying EMA’s motion for declaratory judgement on its interpretation of the cashless exercise formula, and stating, inter alia, that “the Agreements read in their entirety reveal that nFUSZ, Inc.’s position regarding the proper cashless exercise formula is the only sensible one and that the cashless exercise formula must be enforced accordingly.” The court went on to order that in light of this finding, the parties should submit a proposal for future proceedings. Accordingly, the Company has instructed its counsel to prosecute the Company’s claims for reimbursement of all of the costs it incurred in connection with this action, including all attorneys’ fees as well as all damages it incurred as a result of EMA’s conduct.

b. Former Employee

The Company is currently in a dispute with a former employee of its predecessor bBooth, Inc. who has interposed a breach of contract claim in which he alleges that he is entitled to approximately \$300,000 in unpaid bonus compensation from 2015. The Company does not believe his claims have any merit as they are contradicted by documentary evidence, and barred by the applicable statute of limitations, and barred by a release executed by the former employee when the Company purchased all of his shares of stock more than 4 years ago in January 2016. The Company intends to seek dismissal of the former employee’s claims through arbitration.

c. Class Action

On July 9, 2019, a purported class action complaint was filed in the United States District Court, Central District of California, styled *SCOTT C. HARTMANN, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. VERB TECHNOLOGY COMPANY, INC., and RORY J. CUTAIA, Defendant, Case Number 2:19-CV-05896*. The complaint purports to be brought on behalf of a class of persons or entities who purchased or otherwise acquired the Company's Common Stock between January 3, 2018 and May 2, 2018, and alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, arising out of the January 3, 2018, announcement by the Company of its agreement with Oracle America, Inc. The complaint seeks unspecified costs and damages. The Company believes the complaint is without merit and the Company intends to vigorously defend the action.

d. Derivative Action

On September 27, 2019, a derivative action was filed in the United States District Court, Central District of California, styled *Richard Moore, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. Verb Technology Company, Inc., and Rory J. Cutaia, James P. Geiskopf, and Jeff Clayborne, Defendants, Case Number 2:19-CV-08393-AB-SS*. The derivative action also arises out of the January 3, 2018, announcement by the Company of its agreement with Oracle America, Inc. The derivative action alleges claims for breach of fiduciary duty, unjust enrichment, and waste of corporate assets due to the costs associated with the defense of the above referenced class action complaint. The derivative complaint seeks a declaration that the individual defendants have breached their duties, unspecified damages, and certain purportedly remedial measures. The Company contends that the class action is without merit and as such, this derivative action, upon which it relies, is likewise without merit and the Company intends to vigorously defend this suit.

The Company knows of no other material pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its assets or properties, or the assets or properties of any of its subsidiaries, are subject and, to the best of its knowledge, no adverse legal activity is anticipated or threatened. In addition, the Company does not know of any such proceedings contemplated by any governmental authorities.

The Company knows of no material proceedings in which any of its directors, officers, or affiliates, or any registered or beneficial stockholder is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

The Company believes it has adequately reserved for all litigation within its financials.

Board of Directors

The Company has committed an aggregate of \$450,000 in board fees to its five board members over the term of their appointment for services to be rendered. Board fees are accrued and paid monthly. The members will serve on the board until the annual meeting for the year in which their term expires or until their successors has been elected and qualified.

Total board fees expensed during the period ended March 31, 2020 was \$105,000. As of March 31, 2020, total board fees to be recognized in future period amounted to \$322,000 and will be recognized once the service has been rendered.

The recent outbreak of COVID-19 may have a significant negative impact on our business, sales, results of operations and financial condition.

The global outbreak of COVID-19 has led to severe disruptions in general economic activities, as businesses and federal, state, and local governments take increasingly broad actions to mitigate this public health crisis. We have experienced disruption to our business, both in terms of disruption of our operations and the adverse effect on overall economic conditions. These conditions will significantly negatively impact all aspects of our business. Our business is dependent on the continued health and productivity of our employees, including our software engineers, sales staff and corporate management team. Individually and collectively, the consequences of the COVID-19 outbreak could have a material adverse effect on our business, sales, results of operations and financial condition.

Additionally, our liquidity could be negatively impacted if these conditions continue for a significant period of time and we may be required to pursue additional sources of financing to obtain working capital, maintain appropriate inventory levels, and meet our financial obligations. Currently, capital and credit markets have been disrupted by the crisis and our ability to obtain any required financing is not guaranteed and largely dependent upon evolving market conditions and other factors. Depending on the continued impact of the crisis, further actions may be required to improve our cash position and capital structure.

The extent to which the COVID-19 outbreak ultimately impacts our business, sales, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience significant impacts to our business as a result of its global economic impact, including any economic downturn or recession that has occurred or may occur in the future.

16. SUBSEQUENT EVENTS

Issuance of Restricted Stock Awards

On April 10, 2020, the board of directors of Verb Technology Company, Inc., a Nevada corporation (the “Company”), approved management’s COVID-19 Full Employment and Cash Preservation Plan (the “Plan”), pursuant to which all directors and senior level management would reduce their cash compensation by 25%, and all other employees and consultants would reduce their cash compensation by 20% (the “Cash Reduction Amount”) for a period of three months from April 16, 2020 through July 15, 2020 for one category of plan participants, and April 26, 2020 through July 18, 2020 for the other category of participants. The Plan was designed to promote the continued growth of the Company and avoid the lay-offs and staff cut-backs experienced by many companies affected by the COVID-19 economic crisis. The Cash Reduction Amount is to be paid in shares of the Company’s common stock (the “Shares”) through an allocation of shares from the Company’s 2019 Omnibus Incentive Plan (the “Omnibus Incentive Plan”) and granted pursuant to stock award agreements entered into effective as of April 10, 2020 (the “Grant Date”) between the Company and each of the Company’s directors, executive officers, employees, and consultants. The stock award agreements provide that the Shares will vest on July 18, 2020 (the “Vesting Date”) as long as the recipient remains in continuous service to the Company during the time from the Grant Date through the Vesting Date. The Shares were valued at \$1.198 per share in accordance with the provisions of the Omnibus Incentive Plan, which provides that the value shall be determined based on the volume weighted average price of the Company’s common stock during a period of up to the 30-trading days prior to the Grant Date. Total Common Stock granted as part of the Cash Preservation Plan on April 10, 2020 was 589,099 with a fair value of \$866,000. The shares were valued based on the market value of the Company’s stock price on the grant date and will be amortized over the life of the agreements and recorded as stock compensation expense. As of the date of this report the restricted shares have not been issued to the respective employees.

Issuance of Common Stock

Subsequent to March 31, 2020, the Company issued 87,032 shares of Common Stock to vendors for services rendered with a fair value of \$123,000. These shares of Common Stock were valued based on the market value of the Company’s stock price at the issuance date or the date the Company entered into the agreement related to the issuance.

Subsequent to March 31, 2020, as part of the Company’s private placement offering, subscribed shares of 845,000 shares of common stock were issued in April and May 2020 upon receipt of cash proceeds of \$1,014,000 (see Note 11).

Grant of Stock Options

Subsequent to March 31, 2020, the Company granted stock options to an employee to purchase a total of 138,000 shares of Common Stock for services rendered. The options have an average exercise price of \$1.38 per share, expire in five years, and vest over a period of one to four years from grant date. The total fair value of these options at the grant date was \$191,000 using the Black-Scholes option pricing model.

Paycheck Protection Program

On April 17, 2020, the Company received loan proceeds in the amount of approximately \$1,218,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Company intends to use the proceeds for purposes consistent with the PPP. While the Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause the Company to be ineligible for forgiveness of the loan, in whole or in part.

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion and analysis of the results of operations and financial condition of our company for the three-month period ended March 31, 2020 and 2019, should be read in conjunction with the financial statements and related notes and the other financial information that are included elsewhere in this Quarterly Report on Form 10-Q. This discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions. Forward-looking statements are statements not based on historical fact and which relate to future operations, strategies, financial results, or other developments. Forward-looking statements are based upon estimates, forecasts, and assumptions that are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to business decisions, are subject to change. These uncertainties and contingencies can affect actual results to differ materially from those expressed in any forward-looking statements made by us, or on our behalf. We disclaim any obligation to update forward-looking statements. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements.

As used in this Quarterly Report on Form 10-Q, the terms “we,” “us,” “our,” and “Verb” refer to Verb Technology Company, Inc., a Nevada corporation, individually, or as the context requires, collectively with its subsidiary, Verb Direct, LLC, or Verb Direct, on a consolidated basis, unless otherwise specified.

Overview

We are a Software-as-a-Service, or SaaS, applications platform developer. Our platform is comprised of a suite of sales enablement business software products marketed on a subscription basis. Our applications, available in both mobile and desktop versions, are offered as a fully integrated suite, as well as on a standalone basis, and include verbCRM, our Customer Relationship Management application; verbLEARN, our Learning Management System application; and verbLIVE, our Live Broadcast Video Webinar application.

Our Technology

Our suite of applications can be distinguished from other sales enablement applications because our applications utilize our proprietary interactive video technology as the primary means of communication between sales and marketing professionals and their customers and prospects. Moreover, the proprietary data collection and analytics capabilities of our applications inform our users in real time, on their devices, when and for how long their prospects have watched a video, how many times such prospects watched it, and what they clicked-on, which allows our users to focus their time and efforts on ‘hot leads’ or interested prospects rather than on those that have not seen such video or otherwise expressed interest in such content. Users can create their hot lead lists by using familiar, intuitive ‘swipe left/swipe right’ on-screen navigation. Our clients report that these capabilities provide for a much more efficient and effective sales process, resulting in increased sales conversion rates. We developed the proprietary patent-pending interactive video technology, as well as several other patent-issued and patent-pending technologies that serve as the unique foundation for all of our platform applications.

Our Products

verbCRM combines the capabilities of customer relationship management, or CRM, lead-generation, content management, and in-video e-commerce capabilities in an intuitive, yet powerful tool for both inexperienced as well as highly skilled sales professionals. verbCRM allows users to quickly and easily create, distribute, and post videos to which they can add a choice of on-screen clickable icons, which when clicked, allow viewers to respond to the user’s call-to-action in real-time, in the video, while the video is playing, without leaving or stopping the video. For example, our technology allows a prospect or customer to click on a product they see featured in a video and impulse buy it, or to click on a calendar icon in the video to make an appointment with a salesperson, which are among many novel features and functionalities designed to eliminate or reduce friction from the sales process for our users. The verbCRM app is designed to be easy to use and navigate, and takes little time and training for a user to begin using the app effectively. It usually takes less than four minutes for a novice user to create an interactive video from our app. Users can add interactive icons to pre-existing videos, as well as to newly created videos shot with practically any mobile device. verbCRM interactive videos can be distributed via email, text messaging, chat app, or posted to popular social media directly and easily from our app. No software download is required to view Verb interactive videos on virtually any mobile or desktop device, including smart TVs. For the quarter ended March 31, 2020, verbCRM was the primary source of subscription-based SaaS recurring digital revenue.

verbLEARN is an interactive video-based learning management system that incorporates all of the clickable in-video technology featured in our verbCRM application, however adapted for use by educators for video-based education. verbLEARN is used by enterprises seeking to educate a large sales team or a customer base about new products, or elicit feedback about existing products. It also incorporates Verb’s proprietary data collection and analytics capabilities that inform users in real time, when and for how long the viewers watched the video, how many times they watched it, and what they clicked-on. Because verbLEARN launched in the fourth quarter of 2019, it was not a significant source of subscription-based SaaS recurring digital revenue for the quarter ended March 31, 2020.

verbLIVE builds on popular video-based platforms such as Facebook Live, Zoom, WebEx, and Go2Meeting, among others, by adding Verb’s proprietary interactive in-video ecommerce capabilities – including an in-video Shopify shopping cart integrated for Shopify account holders - to our own live stream video broadcasting application. verbLIVE is a next-generation webinar platform that allows webinar hosts to utilize a variety of novel sales-driving features, including placing interactive icons on-screen that appear on the screens of all viewers, providing in-video click-to-purchase capabilities for products or services featured in the live video broadcast, in real-time, driving friction-free selling. verbLIVE also provides the host with real-time viewer engagement data and interaction analytics. verbLIVE is entirely browser-based, allowing it to function easily and effectively on all devices without requiring the host or the viewers to download software, and is secured through end-to-end encryption. verbLIVE is currently in pre-sales, accepting customer deposits, and is expected to launch commercially in summer 2020.

The Verb In-App Eco-System

To more effectively and efficiently monetize our current large user base, we have developed and have begun to deploy in-app purchase capabilities for all verbCRM users. This feature is currently being distributed and deployed as an automatic software update to enterprise client users whose monthly subscription fees and use of the application are paid by their corporate employer, sponsor, or principal. The in-app purchase capability will allow these users to pay for subscriptions directly in the app with their own credit card in order to access upgraded or unlocked verbCRM features and additional functionality within the app.

In addition, these users will have in-app access to our forthcoming “app store” where users can subscribe for third-party apps that are complimentary to verbCRM user demographics, such as specialized expense tracking applications, tax software, among other third-party apps offered directly to our user base on a revenue share basis with the third-party developers. In addition, we are expecting to introduce during 2020 an “Open API” architecture, allowing third-party developers to create specialized apps with features and functionality that integrate seamlessly into our verbCRM application. These will be offered directly to our user base through our verbCRM app store on a revenue-sharing basis.

Verb Partnerships and Integrations

We have completed the integration of verbCRM into systems offered by 17 of the most popular direct sales back-office system providers, such as Direct Scale, Exigo, By Design, Thatcher, Multisoft, Xensoft, and Party Plan. Direct sales back-office systems provide many of the support functions required for direct sales operations, including payroll, customer genealogy management, statistics, rankings, and earnings, among other direct sales financial tracking capabilities. The integration into these back-office providers, facilitated through our own API development, allows single sign-on convenience for users, as well as enhanced data analytics and reporting capabilities for all users. We believe that our integration into these back-end platforms accelerates the adoption of verbCRM by large direct sales enterprises that rely on these systems and as such, we believe this represents a competitive advantage.

We are also in various stages of development, testing and deployment for the integration of our latest generation interactive video and enhanced analytics and reporting technology, and more recently, a core package that includes verbLIVE, into popular CRM providers, including Salesforce, Microsoft, Oracle/NetSuite, and Adobe/Marketo, among others with whom we have executed partnership agreements. Each of these agreements provides for revenue share arrangements resulting from sales of our product to their respective clients. The integrations for Salesforce and Microsoft represent new build integrations, while those for Oracle/NetSuite and Adobe/Marketo represent replacement integrations. We have intentionally, though temporarily, delayed further action on and deployment of these integrations in order to allocate design, engineering and development resources to those initiatives that we believe will become revenue producing opportunities sooner, especially those that we believe will likely produce greater market demand due to the current and anticipated continued effects of the COVID-19 pandemic. We expect to resume action on and deployment of these integrations in the summer of 2020.

Non-Digital Products and Services

Historically, we have also provided certain non-digital services to some of our enterprise clients such as printing and fulfillment services. We designed and printed welcome kits and starter kits for their marketing needs and provided fulfillment services, which consisted of managing the preparation, handling and shipping of our client's custom-branded merchandise they use for marketing purposes at conferences and other events. We also managed the fulfillment of our clients' product sample packs that verbCRM users order through the app for automated delivery and tracking to their customers and prospects.

However, on February 28, 2020, we executed a letter of intent with Range Printing, a company in the business of providing enterprise class printing, sample assembly, warehousing, packaging, shipping and fulfillment services. Pursuant to the letter of intent, through an automated process we have established for this purpose, Range will receive orders for samples and merchandise from us as and when we receive them from our clients and users, and print, assemble, store, package and ship such samples and merchandise on our behalf. The Range letter of intent provides for a revenue share arrangement based upon the specific services to be provided by Range that is designed to guarantee net revenue to us, maintain our relationship with our clients by continuing to service their non-digital needs, while eliminating the labor and overhead costs associated with the provision of such services by us.

Our Market

Our client base consists primarily of multi-national direct sales enterprises to whom we provide white-labeled, client-branded versions of our products. Our clients also include large professional associations, educational institutions, including school districts, auto sales, auto leasing, insurance, real estate, home security, not-for-profits, as well as clients in the health care industry, and the burgeoning CBD industry, among other business sectors. Currently, we provide subscription-based application services to approximately 100 enterprise clients for use in over 60 countries, in over 48 languages, which collectively account for a user base generated through more than 1.3 million downloads of our verbCRM application. Among the new business sectors targeted for this year are pharmaceutical sales, government institutions, and political parties and candidates.

Revenue Generation

We generate revenue from the following sources:

- recurring subscription fees paid by enterprise users and affiliates;
- recurring subscription fees paid by non-enterprise, small business, and individual users;
- recurring subscription fees paid by users who access in-app purchases of various premium services, features, functionality, and upgrades;
- recurring subscription fees paid by users who access in-app purchases of third-party software provider apps in our forthcoming app store;
- recurring subscription fees paid by users of Salesforce, Microsoft, Oracle/NetSuite, and Adobe/Marketo, among others with whom we have executed partnership agreements, for access to our applications that we intend to integrate into these platforms, including recurring subscription fees paid by users who subscribe to bundled service offerings from these partners and/or their respective value-added resellers;
- recurring subscription fees paid by users for all of the foregoing products and services generated through our recently launched Japan operations;
- recurring subscription fees paid by users generated through our forthcoming reseller and affiliate distribution programs; and
- Fees paid by enterprise clients for non-digital products and services through our Range Printing venture.

Results of Operations

Three Months Ended March 31, 2020 as Compared to the Three Months Ended March 31, 2019

The following is a comparison of our results of operations for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020 (unaudited)	Three Months Ended March 31, 2019 (unaudited)	Change
Revenue			
SaaS recurring subscription revenue	\$ 1,057,000	\$ 9,000	\$ 1,048,000
Other digital revenue	400,000	-	400,000
Welcome kits and fulfillment	728,000	-	728,000
Shipping	169,000	-	169,000
Total revenue	2,354,000	9,000	2,345,000
Cost of revenue			
Digital	230,000	30,000	200,000
Welcome kits and fulfillment	676,000	-	676,000
Shipping	157,000	-	157,000
Total cost of revenue	1,063,000	30,000	1,033,000
Gross margin	1,291,000	(21,000)	1,312,000
Operating expenses:			
Research and development	1,274,000	564,000	710,000
Depreciation and amortization	363,000	564,000	359,000
General and administrative	3,514,000	4,000	1,329,000
Total operating expenses	5,151,000	2,753,000	2,398,000
Loss from operations	(3,860,000)	(2,774,000)	(1,086,000)
Other income (expense), net			
Other expense	(6,000)	-	(6,000)
Financing costs	-	(84,000)	84,000
Interest expense - amortization of debt discount	(137,000)	(1,054,000)	917,000
Change in fair value of derivative liability	2,092,000	944,000	1,148,000
Interest expense	(35,000)	(40,000)	5,000
Total other income (expense), net	1,914,000	(234,000)	2,148,000
Net loss	\$ (1,946,000)	\$ (3,008,000)	1,062,000

Revenue

Total revenue for the quarter ended March 31, 2020 was \$2.4 million, compared to \$9,000 for the quarter ended March 31, 2019. The increase in revenue is attributed to revenue generated by Verb Direct (formerly Sound Concepts), our wholly-owned subsidiary that we acquired in April 2019 and revenue we generated together following the merger of the two businesses and the marketing of our then newly combined sales enablement platform. As a result of the acquisition, we currently have four revenue streams: (1) digital subscription-based SaaS recurring revenue associated with our verbCRM; (2) digital non-subscription-based revenue consisting of product sample revenue as well as design fees generated through or in connection with our applications; (3) non-digital revenue generated from printing of welcome kits, which consists of “starter kits” that clients use for new sales reps, and fulfillment of various custom products clients use for marketing purposes and at conferences; and (4) non-digital revenue we generate from shipping fees associated with client welcome kits and fulfillment.

Total digital revenue for the quarter ended March 31, 2020 was \$1.5 million, compared to \$9,000 for the quarter ended March 31, 2019. Total digital revenue for the quarter ended March 31, 2020 consisted of subscription-based SaaS recurring revenue associated with our verbCRM and verbLEARN applications of \$1.1 million and non-subscription-based revenue of \$400,000.

Total non-digital revenue for the quarter ended March 31, 2020 was \$897,000, compared to \$0 for the quarter ended March 31, 2019. Total non-digital revenue for 2019 consisted of revenue generated from printing of welcome kits/starter kits that our clients use for new sales reps, fulfillment of various custom products our clients use for marketing purposes and at conferences of \$728,000; and shipping fees associated with client welcome kits and fulfillment of \$169,000.

The table below sets forth our quarterly revenues from the quarter ended March 31, 2019 through the quarter ended March 31, 2020, which reflects the trend of revenue since our acquisition of Verb Direct in April 2019

	2019 Quarterly Revenue				2020
	Q1	Q2	Q3	Q4	Q1
SaaS recurring subscription revenue	\$ 9,000	\$ 858,000	\$ 953,000	\$ 995,000	\$ 1,057,000
Other digital revenue	-	596,000	485,000	344,000	400,000
Total digital revenue	\$ -	\$ 1,454,000	\$ 1,438,000	\$ 1,339,000	\$ 1,457,000
Welcome kits and fulfillment	-	1,784,000	1,164,000	965,000	728,000
Shipping	-	495,000	271,000	181,000	169,000
Total non-digital revenue	\$ -	\$ 2,279,000	\$ 1,435,000	\$ 1,146,000	\$ 897,000
Grand total	\$ 9,000	\$ 3,733,000	\$ 2,873,000	\$ 2,485,000	\$ 2,354,000

Cost of Revenue

Total cost of revenue for the quarter ended March 31, 2020 was \$1.1 million, compared to \$30,000 for the quarter ended March 31, 2019. The increase in cost of revenue is attributed to costs of Verb Direct. SaaS cost of revenue for the quarter ended March 31, 2020 was \$230,000, compared to \$30,000 for the quarter ended March 31, 2019. Cost of

revenue derived from the welcome kits, fulfillments, and shipping for the quarter ended March 31, 2020 was \$0.8 million, compared to \$0 for the quarter ended March 31, 2019.

Operating Expenses

Research and development expenses were \$1.3 million for the quarter ended March 31, 2020, as compared to \$564,000 for the quarter ended March 31, 2019. Research and development expenses primarily consisted of fees paid to employees and vendors contracted to perform research projects and develop technology. The increase in research and development is attributed to research and development expenses of Verb Direct and additional product development and testing to support the integration of Verb Direct, development of verbLIVE, plus enhancements to our core platform to facilitate native integrations with Salesforce, Microsoft, Adobe, and other channel partners.

Depreciation and amortization expenses were \$363,000 for the quarter ended March 31, 2020, as compared to \$4,000 for the quarter ended March 31, 2019. The increase was associated with \$325,000 of amortization related to the intangible asset recorded as part of the acquisition of Verb Direct in April 2019, amortization of leasehold improvements related to the Corporate Headquarters, and other depreciation and amortization attributed to Verb Direct.

General and administrative expenses for the quarter ended March 31, 2020 were \$3.5 million, as compared to \$2.2 million for the quarter ended March 31, 2019. The increase in general and administrative expenses is primarily related to general and administration expenses attributed to Verb Direct of \$1.0 million, an increase in labor to support growth of \$245,000, and an increase in stock compensation expense of \$100,000.

Other income (expense), net, for the quarter ended March 31, 2020 totaled \$1.9 million, which was attributed to a change in the fair value of derivative liability of \$2.1 million, offset by interest expense for amortization of debt discount of (\$137,000), interest expense of (\$35,000), and other expense of (\$6,000). Other income (expense), net, for the quarter ended March 31, 2019 totaled (\$234,000), which was attributed to interest expense for amortization of debt discount of (\$1.1) million, financing costs of (\$84,000), interest expense of (\$40,000), all offset by a change in the fair value of derivative liability of \$944,000.

Modified EBITDA

In addition to our GAAP results, we present modified EBITDA as a supplemental measure of our performance. However, modified EBITDA is not a recognized measurement under GAAP and should not be considered as an alternative to net income, income from operations or any other performance measure derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of liquidity. We define modified EBITDA as net income (loss), plus interest expense, depreciation and amortization, stock-based compensation, financing costs, changes in fair value of derivative liability, and other (income) / expense, net.

Management considers our core operating performance to be that which our managers can affect in any particular period through their management of the resources that affect our underlying revenue and profit generating operations that period. Non-GAAP adjustments to our results prepared in accordance with GAAP are itemized below. Readers are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating modified EBITDA, readers should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of modified EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

	For the Three Months Ended	
	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Net loss	\$ (1,946,000)	\$ (3,008,000)
Adjustments:		
Other expense	6,000	-
Stock compensation expense	943,000	851,000
Financing costs	-	84,000
Amortization of debt discount	137,000	1,054,000
Change in fair value of derivative liability	(2,092,000)	(944,000)
Interest expense	35,000	40,000
Depreciation and amortization	363,000	4,000
Total EBITDA adjustments	<u>(608,000)</u>	<u>1,089,000</u>
Modified EBITDA	<u>\$ (2,554,000)</u>	<u>\$ (1,919,000)</u>

The \$635,000 decrease in modified EBITDA for the three months ended March 31, 2020 compared to the same period in 2019, resulted from the increase in research & development and labor-related costs to support growth.

We present modified EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use modified EBITDA in developing our internal budgets, forecasts, and strategic plan; in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; and in making compensation decisions and in communications with our board of directors concerning our financial performance. Modified EBITDA has limitations as an analytical tool, which includes, among others, the following:

- Modified EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Modified EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Modified EBITDA does not reflect future interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and the Modified EBITDA does not reflect any cash requirements for such replacements.

Liquidity and Capital Resources

Going Concern

We have incurred operating losses and negative cash flows from operations since inception. We incurred a net loss of \$2.0 million during the three months ended March 31, 2020. We also utilized cash in operations of \$2.3 million during the three months ended March 31, 2020. As a result, our continuation as a going concern is dependent on our ability to obtain additional financing until we can generate sufficient cash flows from operations to meet our obligations. We intend to continue to seek additional debt or equity financing to continue our operations.

Our consolidated financial statements have been prepared on a going concern basis, which implies we may not continue to meet our obligations and continue our operations for the next twelve months. Our continuation of as a going concern is dependent upon our ability to obtain necessary debt or equity financing to continue operations until we begin generating positive cash flow. In addition, our independent registered public accounting firm, in its report on our December 31, 2019 consolidated financial statements, has raised substantial doubt about our ability to continue as a going concern.

There is no assurance that we will ever be profitable or that debt or equity financing will be available to us in the amounts, on terms, and at times deemed acceptable to us, if at all. The issuance of additional equity securities by us would result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, would increase our liabilities and future cash commitments. If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business, as planned, and as a result may be required to scale back or cease operations for our business, the results of which would be that our stockholders would lose some or all of their investment. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should we be unable to continue as a going concern.

Overview

As of March 31, 2020, we had cash of \$1.6 million. We estimate our operating expenses for the next three months may continue to exceed any revenue we generate, and we may need to raise capital through either debt or equity offerings to continue operations. We are in the early stages of our business. We are required to fund growth from financing activities, and we intend to rely on a combination of equity and debt financings. Due to market conditions and the early stage of our operations, there is considerable risk that we will not be able to raise such financings at all, or on terms that are not dilutive to our existing stockholders. We can offer no assurance that we will be able to raise such funds. If we are unable to raise the funds we require for all of our planned operations, we may be forced to reallocate funds from other planned uses and may suffer a significant negative effect on our business plan and operations, including our ability to develop new products and continue our current operations. As a result, our business may suffer, and we may be forced to reduce or discontinue operations.

On February 5, 2020, we initiated our private placement, which is for the sale and issuance of up to five million shares of our common stock at a per-share price of \$1.20, which amount represents a 20% discount to the \$1.50 closing price of our common stock on that day, and is memorialized by a subscription agreement.

On March 31, 2020 we closed our private placement. In total we issued 4,237,833 shares of common stock with net cash proceeds of \$4.4 million after fees and expenses, of which, \$3,430,000 was received as of March 31, 2020 and the remaining \$1,014,000 was received in April and May 2020.

On April 17, 2020, we received loan proceeds in the amount of approximately \$1,218,000 under the Paycheck Protection Program, or PPP. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. We intend to use the proceeds for purposes consistent with the PPP. While we currently believe that our use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause us to be ineligible for forgiveness of the loan, in whole or in part.

Cash Flows – Operating

For the three months ended March 31, 2020, our cash flows used in operating activities amounted to \$2.3 million, compared to cash used for the three months ended March 31, 2019 of \$1.1 million. The change is attributed to the growth of the business, product development, inclusion of Verb Direct operating expenses, all offset by a change in accounts payable of \$800,000 compared to the three months ended March 31, 2019.

Cash Flows – Investing

For the three months ended March 31, 2020, our cash flows used in investing activities amounted to \$121,000. The change is attributed to fixed asset purchases associated with our new corporate headquarters in Newport Beach, California.

Cash Flows – Financing

Our cash provided by financing activities for the three months ended March 31, 2020 amounted to \$3.0 million, which represented \$3.4 million of net proceeds from the issuance of shares of our common stock, offset by \$411,000 of payments against advance on future receipts. Our cash provided by financing activities for the quarter ended March 31, 2019 amounted to \$514,000, which represented \$432,000 of proceeds from the issuance of convertible debt, \$350,000 proceeds from the issuance of unsecured debt, \$58,000 of unsecured related party debt, offset by \$326,000 of deferred offering costs.

Notes Payable – Related Parties

We have the following outstanding notes payable to related parties as of March 31, 2020:

Note	Issuance Date	Maturity Date	Interest Rate	Original Borrowing	Balance at March 31, 2020
Note 1 (A)	December 1, 2015	February 8, 2021	12.0%	\$ 1,249,000	\$ 825,000
Note 2 (B)	December 1, 2015	April 1, 2017	12.0%	112,000	112,000
Note 3 (C)	April 4, 2016	June 4, 2021	12.0%	343,000	240,000
Total notes payable – related parties					1,177,000
Non-current					(240,000)
Current					\$ 937,000

(A) On December 1, 2015, we issued a convertible note payable to Rory J. Cutaia, our Chief Executive Officer and then-majority stockholder, to consolidate all loans and advances made by Mr. Cutaia to our company as of that date. The note bears interest at a rate of 12% per annum, is secured by our assets, and will mature on February 8, 2021, as amended.

(B) On December 1, 2015, we issued a note payable to a former member of our board of directors, in the amount of \$112,000 representing unpaid consulting fees as of November 30, 2015. The note is unsecured, bears interest rate of 12% per annum, and matured in April 2017. As of March 31, 2020, the outstanding principal balance of the note was \$112,000.

(C) On April 4, 2016, we issued a convertible note to Mr. Cutaia, in the amount of \$343,000, to consolidate all advances made by Mr. Cutaia to our company during the period December 2015 through March 2016. The note, as amended, bears interest at a rate of 12% per annum, is secured by our assets, and will mature on June 4, 2021.

Deferred Incentive Compensation

Note	Issuance Date	Maturity Date	Balance at March 31, 2020	
Rory J. Cutaia (A)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	\$ 430,000	
Rory J. Cutaia (B)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	324,000	
Jeff Clayborne (A)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	125,000	
Jeff Clayborne (B)	December 23, 2019	50% on January 10, 2021 and 50% on January 10, 2022	163,000	
Total deferred compensation payable – related parties, net				1,042,000
Non-current				(521,000)
Current				\$ 521,000

(A) On December 23, 2019, we awarded Rory Cutaia, our Chief Executive Officer and Jeff Clayborne, our Chief Financial Officer annual incentive compensation of \$430,000 and 125,000, respectively, for services rendered. We have determined that it is in our best interest and in the best interest of our stockholders to defer payments to Messrs. Cutaia and Clayborne. We will pay 50% of the annual incentive compensation on January 10, 2021 and the remaining 50% on January 10, 2022.

(B) On December 23, 2019, we awarded Rory Cutaia, our Chief Executive Officer and Jeff Clayborne, our Chief Financial Officer a bonus for the successful up-listing to The NASDAQ Capital Market and the acquisition of Verb Direct totaling \$324,000 and 162,000, respectively. We have determined that it is in our best interest and in the best interest of our stockholders to defer payments to Messrs. Cutaia and Clayborne. We will pay 50% of these awards on January 10, 2021 and the remaining 50% on January 10, 2022.

Advance on Future Receipts

Note	Issuance Date	Maturity Date	Interest Rate	Original Borrowing	Balance at March 31, 2020
Note 1 (A)	December 24, 2019	June 30, 2020		10% \$ 506,000	\$ 297,000
Note 2 (A)	December 24, 2019	June 30, 2020		10% 506,000	297,000
Total				<u>\$1,012,000</u>	<u>594,000</u>
Debt discount					(137,000)
Net					<u>\$ 457,000</u>

(A) On December 24, 2019, we received two secured advances from an unaffiliated third party totaling \$728,000 for the purchase of future receipts/revenues of \$1,012,000. Pursuant to the terms of the agreement the unaffiliated third-party will auto withdraw an aggregate of \$6,000 from our operating account each banking day. The term of the agreement extends until the advances are paid in full. We may pay off either note for \$446,000 if paid within 30 days of funding; for \$465,000 if paid between 31 and 60 days of funding; or for \$484,000 if paid within 61 to 90 days of funding.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, or Exchange Act, and are not required to provide the information under this Item.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require that we make certain assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during each reporting period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported periods. Significant estimates include valuation of derivative liability, valuation of debt and equity instruments, share-based compensation arrangements, and realization of deferred tax assets. Amounts could materially change in the future.

Derivative Financial Instruments

We evaluate our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

We use Level 2 inputs for our valuation methodology for the derivative liabilities as their fair values were determined by using a probability weighted average Black-Scholes-Merton pricing model based on various assumptions. Our derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives.

Share-Based Payments

We account for share-based awards to employees and nonemployee directors and consultants in accordance with the provisions of ASC 718, Compensation-Stock Compensation, and under the recently issued guidance following FASB's pronouncement, ASU 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. Under ASC 718, and applicable updates adopted, share-based awards are valued at fair value on the date of grant and that fair value is recognized over the requisite service, or vesting, period. We value our equity awards using the Black-Scholes option pricing model, and account for forfeitures when they occur.

Use of the Black-Scholes option pricing model requires the input of subjective assumptions including expected volatility, expected term, and a risk-free interest rate. We estimate volatility using a blend of our own historical stock price volatility as well as that of market comparable entities since our common stock has limited trading history and limited observable volatility of its own. The expected term of the options is estimated by using the Securities and Exchange Commission Staff Bulletin No. 107's Simplified Method for Estimate Expected Term. The risk-free interest rate is estimated using comparable published federal funds rates.

Goodwill

In accordance with FASB ASC Topic No. 350, Intangibles-Goodwill and Other, we review the recoverability of the carrying value of goodwill at least annually or whenever events or circumstances indicate a potential impairment. Our impairment testing will be done annually at December 31 (our fiscal year end). Recoverability of goodwill is determined by comparing the fair value of our reporting units to the carrying value of the underlying net assets in the reporting units. If the fair value of a reporting unit is determined to be less than the carrying value of its net assets, goodwill is deemed impaired and an impairment loss is recognized to the extent that the carrying value of goodwill exceeds the difference between the fair value of the reporting unit and the fair value of its other assets and liabilities.

Intangible Assets with Finite Useful Lives

We have certain finite lived intangible assets that were initially recorded at their fair value at the time of acquisition. These intangible assets consist of developed technology. Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful life of five years.

We review all finite lived intangible assets for impairment when circumstances indicate that their carrying values may not be recoverable. If the carrying value of an asset group is not recoverable, we recognize an impairment loss for the excess carrying value over the fair value in our consolidated statements of operations.

Recently Issued Accounting Pronouncements

For a summary of our recent accounting policies, refer to Note 2, *Summary of Significant Accounting Policies*, of our unaudited condensed consolidated financial statements included under Item 1 – Financial Statements in this Form 10-Q.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of March 31, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

On April 24, 2018, EMA Financial, LLC, or EMA, commenced an action against us, styled as EMA Financial, LLC, a New York limited liability company, Plaintiff, against nFUSZ, Inc., Defendant, United States District Court, Southern District of New York, case number 1:18-cv-03634-NRB. The complaint sets forth four causes of action and seeks money damages, injunctive relief, liquidated damages, and declaratory relief related to our refusal to agree to EMA's interpretation of a cashless exercise provision in a common stock warrant we granted to EMA in December 2017. We interposed several counterclaims, including a claim for reformation of the underlying agreements to reflect our interpretation of the cashless exercise provision. Both parties moved for summary judgment. On March 16, 2020, the United States District Court entered a decision agreeing with our position, denying EMA's motion for declaratory judgment on its interpretation of the cashless exercise formula, and stating, inter alia, that "the Agreements read in their entirety reveal that nFUSZ, Inc.'s position regarding the proper cashless exercise formula is the only sensible one and that the cashless exercise formula must be enforced accordingly." The court went on to order that in light of this finding, the parties should submit a proposal for future proceedings. Accordingly, we have instructed our counsel to prosecute our claims for reimbursement of all of the costs we incurred in connection with this action, including all attorneys' fees as well as all damages we incurred as a result of EMA's conduct.

We are currently in a dispute with a former employee of our predecessor bBooth, Inc. who has interposed a breach of contract claim in which he alleges that he is entitled to approximately \$300,000 in unpaid bonus compensation from 2015. We do not believe his claims have any merit as they are contradicted by documentary evidence, and barred by the applicable statute of limitations, and barred by a release executed by the former employee when we purchased all of his shares of stock more than 4 years ago in January 2016. We intend to seek dismissal of the former employee's claims through arbitration.

On July 9, 2019, a purported class action complaint was filed in the United States District Court, Central District of California, styled *SCOTT C. HARTMANN, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. VERB TECHNOLOGY COMPANY, INC., and RORY J. CUTAIA, Defendant, Case Number 2:19-CV-05896*. The complaint purports to be brought on behalf of a class of persons or entities who purchased or otherwise acquired our common stock between January 3, 2018 and May 2, 2018, and alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, arising out of the January 3, 2018, announcement by us of our agreement with Oracle America, Inc. The complaint seeks unspecified costs and damages. We believe the complaint is without merit and we intend to vigorously defend the action.

On September 27, 2019, a derivative action was filed in the United States District Court, Central District of California, styled *Richard Moore, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. Verb Technology Company, Inc., and Rory J. Cutaia, James P. Geiskopf, and Jeff Clayborne, Defendants, Case Number 2:19-CV-08393-AB-SS*. The derivative action also arises out of the January 3, 2018, announcement by us of our agreement with Oracle America, Inc. The derivative action alleges claims for breach of fiduciary duty, unjust enrichment, and waste of corporate assets due to the costs associated with the defense of the above referenced class action complaint. The derivative complaint seeks a declaration that the individual defendants have breached their duties, unspecified damages, and certain purportedly remedial measures. We contend that the class action is without merit and as such, this derivative action, upon which it relies, is likewise without merit and we intend to vigorously defend this suit.

We know of no other material pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our assets or properties, or the assets or properties of any of our subsidiaries, are subject and, to the best of our knowledge, no adverse legal activity is anticipated or threatened. In addition, we do not know of any such proceedings contemplated by any governmental authorities.

We know of no material proceedings in which any of our directors, officers, or affiliates, or any registered or beneficial stockholder is a party adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries.

We believe we have adequately reserved for all litigation within our financials.

ITEM 1A – RISK FACTORS

You should carefully consider the risks described below before deciding whether to invest in our common stock. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations and financial results. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. Our filings with the SEC also contain forward-looking statements that involve risks or uncertainties. Our actual results could differ materially from those anticipated or contemplated by these forward-looking statements as a result of a number of factors, including the risks we face described below, as well as other variables that could affect our operating results. Past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business

We have incurred significant net losses and cannot assure you that we will achieve or maintain profitable operations.

To date, we have incurred recurring losses since inception. Our net loss was \$15,918,000 for the year ended December 31, 2019, \$12,127,000 for the year ended December 31, 2018 and \$1,946,000 for the three months ended March 31, 2020. We may continue to incur significant losses in the future for a number of reasons, including unforeseen expenses, difficulties, complications, and delays, and other unknown events.

We anticipate that our operating expenses will increase substantially in the foreseeable future as we undertake increased technology and production efforts to support our business and increase our marketing and sales efforts to drive an increase in the number of customers and clients utilizing our services. These expenditures may make it more difficult to achieve and maintain profitability. In addition, our efforts to grow our business may be more expensive than we expect, and we may not be able to generate sufficient revenue to offset increased operating expenses. If we are forced to reduce our expenses, our growth strategy could be compromised. To offset these anticipated increased operating expenses, we will need to generate and sustain significant revenue levels in future periods in order to become profitable, and, even if we do, we may not be able to maintain or increase our level of profitability.

Accordingly, we cannot assure you that we will achieve sustainable operating profits as we continue to expand our infrastructure, restructure our balance sheet, further develop our marketing efforts, and otherwise implement our growth initiatives. Any failure to achieve and maintain profitability would have a materially adverse effect on our ability to implement our business plan, our results and operations, and our financial condition, and could cause the value of our common stock, to decline, resulting in a significant or complete loss of your investment.

Our independent registered public accounting firm’s reports for the fiscal years ended December 31, 2019 and 2018 have raised substantial doubt as to our ability to continue as a “going concern.”

Our independent registered public accounting firm indicated in its report on our audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018 that there is substantial doubt about our ability to continue as a going concern. A “going concern” opinion indicates that the financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result if we do not continue as a going concern. Therefore, you should not rely on our consolidated balance sheet as an indication of the amount of proceeds that would be available to satisfy claims of creditors, and potentially be available for distribution to stockholders, in the event of liquidation. The presence of the going concern note to our financial statements may have an adverse impact on the relationships we are developing and plan to develop with third parties as we continue the commercialization of our products and could make it challenging and difficult for us to raise additional financing, all of which could have a material adverse impact on our business and prospects and result in a significant or complete loss of your investment.

There is no assurance that we will ever be profitable or that debt or equity financing will be available to us in the amounts, on terms, and at times deemed acceptable to us, if at all. The issuance of additional equity securities by us would result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, would increase our liabilities and future cash commitments. If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business, as planned, and as a result may be required to scale back or cease operations for our business, the results of which would be that our stockholders would lose some or all of their investment. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should we be unable to continue as a going concern .

We have identified material weakness in our internal control over financial reporting which have, and in the future could, if not remediated, result in material misstatements in our financial statements.

Our management is responsible for establishing and maintaining adequate internal controls over our financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act. As disclosed in Item 9A of Part II of our Annual Report filed with the Securities and Exchange Commission on May 14, 2020, we identified two material weaknesses in our internal control over financial reporting related to inadequate segregation of duties and effective risk assessment and to insufficient staffing resources in connection with our financial statement closing processes. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of the last day of the period covered by this report.

We are actively engaged in developing a remediation plan designed to address these material weaknesses. We have taken, and continue to take, the actions discussed in this report to remediate the identified material weaknesses. As we continue to evaluate and work to improve our internal controls over financial reporting, our senior management may determine to take additional measures to address control deficiencies or modify the remediation efforts described in this report. While the Audit Committee and senior management are closely monitoring the implementation, until the remediation efforts discussed in this report, including any additional remediation efforts that our senior management identifies as necessary, are completed, tested, and determined effective, the material weaknesses described in this report could continue to exist. If in the future, the measures are insufficient to address the material weaknesses or if additional material weaknesses or significant deficiencies in our internal controls are discovered or occur in the future, the consolidated financial statements may contain material misstatements and we could be required to restate our financial results, which could materially and adversely affect our business and results of operations or financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the weaknesses or deficiencies, subject us to fines, penalties or judgments, harm our reputation or otherwise cause a decline in investor confidence.

The recent outbreak of COVID-19 may have a significant negative impact on our business, sales, results of operations and financial condition.

The global outbreak of COVID-19 has led to severe disruptions in general economic activities, as businesses and federal, state, and local governments take increasingly broad actions to mitigate this public health crisis. We have experienced disruption to our business, both in terms of disruption of our operations and the adverse effect on overall economic conditions. These conditions will significantly negatively impact all aspects of our business. Our business is dependent on the continued health and productivity of our employees, including our software engineers, sales staff and corporate management team. Individually and collectively, the consequences of the COVID-19 outbreak could have a material adverse effect on our business, sales, results of operations and financial condition.

Additionally, our liquidity could be negatively impacted if these conditions continue for a significant period of time and we may be required to pursue additional sources of financing to obtain working capital, maintain appropriate inventory levels, and meet our financial obligations. Currently, capital and credit markets have been disrupted by the crisis and our ability to obtain any required financing is not guaranteed and largely dependent upon evolving market conditions and other factors. Depending on the continued impact of the crisis, further actions may be required to improve our cash position and capital structure.

The extent to which the COVID-19 outbreak ultimately impacts our business, sales, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience significant impacts to our business as a result of its global economic impact, including any economic downturn or recession that has occurred or may occur in the future.

Our ability to grow and compete in the future will be adversely affected if adequate capital is not available to us or not available on terms favorable to us.

We have limited capital resources. To date, we have financed our operations entirely through equity investments by founders and other investors and the incurrence of debt, and we expect to continue to finance our operations in the same manner in the foreseeable future. Our ability to continue our normal and planned operations, to grow our business, and to compete in our industry will depend on the availability of adequate capital. We cannot assure you that we will be able to obtain additional funding from those or other sources when or in the amounts needed, on acceptable terms, or at all. If we raise capital through the sale of equity, or securities convertible into equity, it would result in dilution to our then-existing stockholders, which could be significant depending on the price at which we may be able to sell our securities. If we raise additional capital through the incurrence of additional indebtedness, we would likely become subject to further covenants restricting our business activities, and holders of debt instruments may have rights and privileges senior to those of our then-existing stockholders. In addition, servicing the interest and principal repayment obligations under debt facilities could divert funds that would otherwise be available to support development of new programs and marketing to current and potential new clients. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce, or eliminate development of new programs or future marketing efforts, or reduce or discontinue our operations. Any of these events could significantly harm our business, financial condition, and prospects.

The success of our business is dependent upon our ability to maintain and expand our customer base and our ability to convince our customers to increase the use of our services and/or platform. If we are unable to expand our customer base and/or the use of our services and/or platform by our customers declines, our business will be harmed.

Our ability to expand and generate revenue depends, in part, on our ability to maintain and expand our relationships with existing customers and convince them to increase their use of our platform. If our customers do not increase their use of our platform, then our revenue may not grow and our results of operations may be harmed. It is difficult to predict customers' usage levels accurately and the loss of customers or reductions in their usage levels may have a negative impact on our business, results of operations, and financial condition. If a significant number of customers cease using, or reduce their usage of, our platform, then we may be required to spend significantly more on sales and marketing than we currently plan to spend in order to maintain or increase revenue. These additional expenditures could adversely affect our business, results of operations, and financial condition. Most of our customers do not have long-term contractual financial commitments to us and, therefore, most of our customers could reduce or cease their use of our platform at any time without penalty or termination charges.

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

The market for CRM applications is intensely competitive and rapidly changing, barriers to entry are relatively low, and many of our competitors, including Salesforce.com, Microsoft, Oracle, SAP SE, and Adobe, which collectively account for approximately 41% of industry sales¹, have greater name recognition, longer operating histories, and larger marketing budgets, as well as substantially greater financial, technical, and other resources, than we do. In addition, many of our potential competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators, and resellers. As a result, our competitors may be able to respond more effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. Furthermore, because of these advantages, even if our products and services are more effective than the products and services that our competitors offer, potential customers might accept competitive products and services in lieu of purchasing our products and services. If we do not compete effectively against our current and future competitors, our operating results could be harmed.

1. Forbes.com [www.forbes.com/sites/louiscolombus/2019/06/22/salesforce-now-has-over-19-of-the-crm-market/#7014e4a333a5]

We may not be able to increase the number of our strategic relationships or grow the revenues received from our current strategic relationships.

We have entered into certain strategic relationships with other marketing and CRM platforms, such as Oracle NetSuite and Adobe Market, to incorporate and integrate our interactive video technology and are actively seeking additional strategic relationships. There can be no assurance, however, that these strategic relationships will result in material revenues for us or that we will be able to generate any other meaningful strategic relationships.

We may not be able to develop enhancements and new features to our existing service or acceptable new services that keep pace with technological developments.

If we are unable to develop enhancements to, and new features for, our sales enablement applications that keep pace with rapid technological developments, such as verbLIVE which we plan to introduce during the summer of 2020, our business will be harmed. The success of enhancements, new features, and services depends on several factors, including the timely completion, introduction, and market acceptance of the feature or edition. Failure in this regard may significantly impair our revenue growth or harm our reputation. We may not be successful in either developing these modifications and enhancements or in timely bringing them to market at a competitive price or at all. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development expenses. Any failure of our service to operate effectively with future network platforms and technologies could reduce the demand for our service, result in customer dissatisfaction, and harm our business.

Our ability to deliver our services is dependent on third party Internet providers.

The Internet's infrastructure is comprised of many different networks and services that, by design, are highly fragmented and distributed. This infrastructure is run by a series of independent, third-party organizations that work together to provide the infrastructure and supporting services of the Internet under the governance of the Internet Corporation for Assigned Numbers and Names (ICANN) and the Internet Assigned Numbers Authority (IANA), which is now related to ICANN.

The Internet has experienced, and will continue to experience, a variety of outages and other delays due to damages to portions of its infrastructure, denial-of-service attacks, or related cyber incidents. These scenarios are not under our control and could reduce the availability of the Internet to us or our customers for delivery of our services. Any resulting interruptions in our services or the ability of our customers to access our services could result in a loss of potential or existing customers and harm our business.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information, proprietary business information of our customers, including, credit card and payment information, and personally identifiable information of our customers and employees. The secure processing, maintenance, and transmission of this information is critical to our operations and business strategy. As such, we are subject to federal, state, provincial and foreign laws regarding privacy and protection of data. Some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data and our agreements with certain customers require us to notify them in the event of a security incident. Evolving regulations regarding personal data and personal information, in the European Union and elsewhere, including, but not limited to, the General Data Protection Regulation, which we refer to as GDPR, and the California Consumer Privacy Act of 2018, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business. Such laws and regulations require or may require us or our customers to implement privacy and security policies, permit consumers to access, correct or delete personal information stored or maintained by us or our customers, inform individuals of security incidents that affect their personal information, and, in some cases, obtain consent to use personal information for specified purposes.

We believe that we take reasonable steps to protect the security, integrity and confidentiality of the information we collect, use, store, and disclose, and we take steps to strengthen our security protocols and infrastructure, however, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. We also could be negatively impacted by software bugs or other technical malfunctions, as well as employee error or malfeasance. Advanced cyber-attacks can be multi-staged, unfold over time, and utilize a range of attack vectors with military-grade cyber weapons and proven techniques, such as spear phishing and social engineering, leaving organizations and users at high risk of being compromised. Any such access, disclosure, or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, a disruption of our operations, damage to our reputation, a loss of confidence in our business, early termination of our contracts and other business losses, indemnification of our customers, liability for stolen assets or information, increased cybersecurity protection and insurance costs, financial penalties, litigation, regulatory investigations and other significant liabilities, any of which could materially harm our business any of which could adversely affect our business, revenues, and competitive position.

Our success depends, in part, on the capacity, reliability, and security of our information technology hardware and software infrastructure, as well as our ability to adapt and expand our infrastructure.

The capacity, reliability, and security of our information technology hardware and software infrastructure are important to the operation of our current business, which would suffer in the event of system failures. Likewise, our ability to expand and update our information technology infrastructure in response to our growth and changing needs is important to the continued implementation of our new service offering initiatives. Our inability to expand or upgrade our technology infrastructure could have adverse consequences, including the delayed provision of services or implementation of new service offerings, and the diversion of development resources. We rely on third parties for various aspects of our hardware and software infrastructure. Third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. Interruption and/or failure of any of these systems could disrupt our operations and damage our reputation, thus adversely impacting our ability to provide our products and services, retain our current users, and attract new users. In addition, our information technology hardware and software infrastructure may be vulnerable to unauthorized access, misuse, computer viruses, or other events that could have a security impact. If one or more of such events occur, our customer and other information processed and stored in, and transmitted through, our information technology hardware and software infrastructure, or otherwise, could be compromised, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses, any of which could substantially harm our business and our results of operations.

We are dependent on third parties to, among other things, maintain our servers, provide the bandwidth necessary to transmit content, and utilize the content derived therefrom for the potential generation of revenues.

We depend on third-party service providers, suppliers, and licensors to supply some of the services, hardware, software, and operational support necessary to provide some of our products and services. Some of these third parties do not have a long operating history or may not be able to continue to supply the equipment and services we desire in the future. If demand exceeds these vendors' capacity, or if these vendors experience operating or financial difficulties or are otherwise unable to provide the equipment or services we need in a timely manner, at our specifications and at reasonable prices, our ability to provide some products and services might be materially adversely affected, or the need to procure or develop alternative sources of the affected materials or services might delay our ability to serve our users. These events could materially and adversely affect our ability to retain and attract users, and have a material negative impact on our operations, business, financial results, and financial condition.

We may not be able to find suitable software developers at an acceptable cost.

We currently rely on certain key suppliers and vendors in the coding and maintenance of our software. We will continue to require such expertise in the future. Due to the current demand for skilled software developers, we run the risk of not being able to find or retain suitable and qualified personnel at an acceptable price, or at all. Without these developers, we may not be able to further develop and maintain our software, which is the most important aspect of our business development.

The success of our business is highly correlated to general economic conditions.

Demand for our products and services is highly correlated with general economic conditions, as a substantial portion of our revenue is derived from discretionary spending by individuals, which typically declines during times of economic instability. Declines in economic conditions in the United States or in other countries in which we operate, including declines as a result of the COVID-19 pandemic, and may operate in the future may adversely impact our financial results. Because such declines in demand are difficult to predict, we or our industry may have increased excess capacity as a result. An increase in excess capacity may result in declines in prices for our products and services. Our ability to grow or maintain our business may be adversely affected by sustained economic weakness and uncertainty, including the effect of wavering consumer confidence, high unemployment, and other factors. The inability to grow or maintain our business would adversely affect our business, financial conditions, and results of operations, and thereby an investment in our common stock.

Our failure to protect our intellectual property rights could diminish the value of our products, weaken our competitive position and reduce our revenue, and infringement claims asserted against us or by us, could have a material adverse effect.

We regard the protection of our intellectual property, which includes patents, trade secrets, copyrights, trademarks and domain names, as critical to our success. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others.

We have two patents related to our system for providing access to, storing and distributing content, and we recently filed a provisional patent application with the U.S. Patent and Trademark Office, or PTO, with respect to our interactive video technology. Our provisional patent application may not result in the issuance of a patent, or certain claims may be rejected or may need to be narrowed, which may limit the protection we are attempting to obtain. In addition, our existing patents and any future patents that may be issued to us, may not protect commercially important aspects of our technology. Furthermore, the validity and enforceability of our patents may be challenged by third parties, which may result in our patents being invalidated or modified by the PTO, various legal actions against us, the need to develop or obtain alternative technology, and/or obtain appropriate licenses under third party patents, which may not be available on acceptable terms or at all.

We have registered domain names and trademarks in the United States and may also pursue additional registrations both in and outside the United States. Effective trade secret, copyright, trademark, domain name and patent protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and the costs of defending our rights. We may be required to protect our intellectual property in an increasing number of jurisdictions, a process that is expensive and may not be successful or which we may not pursue in every location.

Monitoring unauthorized use of our intellectual property is difficult and costly. Our efforts to protect our proprietary rights may not be adequate to prevent misappropriation of our intellectual property. Further, we may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. In addition, our competitors may independently develop similar technology. The laws in the United States and elsewhere change rapidly, and any future changes could adversely affect us and our intellectual property. Our failure to meaningfully protect our intellectual property could result in competitors offering services that incorporate our most technologically advanced features, which could seriously reduce demand for our products. In addition, we may in the future need to initiate infringement claims or litigation. Litigation, whether we are a plaintiff or a defendant, can be expensive, time-consuming and may divert the efforts of our technical staff and managerial personnel, which could harm our business, whether or not such litigation results in a determination that is unfavorable to us. In addition, litigation is inherently uncertain, and thus we may not be able to stop its competitors from infringing upon our intellectual property rights.

Natural disasters and other events beyond our control could materially adversely affect us.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers and could decrease demand for our services.

Our future success depends on our key executive officers and our ability to attract, retain, and motivate qualified personnel.

Our future success largely depends upon the continued services of our executive officers and management team, especially our Chief Executive Officer and President, Mr. Rory J. Cutaia. If one or more of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Additionally, we may incur additional expenses to recruit and retain new executive officers. If any of our executive officers joins a competitor or forms a competing company, we may lose some or all of our customers. Finally, we do not maintain “key person” life insurance on any of our executive officers. Because of these factors, the loss of the services of any of these key persons could adversely affect our business, financial condition, and results of operations, and thereby an investment in our stock.

Our continuing ability to attract and retain highly qualified personnel will also be critical to our success because we will need to hire and retain additional personnel as our business grows. There can be no assurance that we will be able to attract or retain highly qualified personnel. We face significant competition for skilled personnel in our industries. This competition may make it more difficult and expensive to attract, hire, and retain qualified managers and employees. Because of these factors, we may not be able to effectively manage or grow our business, which could adversely affect our financial condition or business. As a result, the value of your investment could be significantly reduced or completely lost.

Risks Related to an Investment in Our Securities

Raising additional capital, including through future sales and issuances of our common stock, or warrants or the exercise of rights to purchase common stock pursuant to our equity incentive plan could result in additional dilution of the percentage ownership of our stockholders, could cause our share price to fall and could restrict our operations.

We expect that significant additional capital will be needed in the future to continue our planned operations, including any potential acquisitions, hiring new personnel and continuing activities as an operating public company. To the extent we seek additional capital through a combination of public and private equity offerings and debt financings, our stockholders may experience substantial dilution. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders may be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of our stockholders. Debt and receivables financings may be coupled with an equity component, such as warrants to purchase shares of our common stock, which could also result in dilution of our existing stockholders’ ownership. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt and other operating restrictions that could adversely impact our ability to conduct our business. A failure to obtain adequate funds may cause us to curtail certain operational activities, including sales and marketing, in order to reduce costs and sustain the business, and would have a material adverse effect on our business and financial condition.

In addition, we have granted options to purchase shares of our common stock pursuant to our equity incentive plans and have registered 8,000,000 shares of common stock underlying options and shares granted pursuant to our equity incentive plans. Sales of shares issued upon exercise of options granted under our equity compensation plans may result in material dilution to our existing stockholders, which could cause our price of our common stock to fall.

Our issuance of additional shares of preferred stock could adversely affect the market value of our common stock, dilute the voting power of common stockholders and delay or prevent a change of control.

Our board of directors have the authority to cause us to issue, without any further vote or action by the stockholders, up to an additional 14,994,000 shares of preferred stock in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. As of May 5, 2020, we had 3,246 shares of preferred stock outstanding that are convertible into 2,094,197 shares of common stock.

The issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive. For example, investors in the common stock may not wish to purchase common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase common stock at the lower conversion price causing economic dilution to the holders of common stock.

Further, the issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of our other classes of voting stock either by diluting the voting power of our other classes of voting stock if they vote together as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote even if the action were approved by the holders of our other classes of voting stock. The issuance of shares of preferred stock may also have the effect of delaying, deferring or preventing a change in control of our company without further action by the stockholders, even where stockholders are offered a premium for their shares.

The market price of our common stock has been, and may continue to be, subject to substantial volatility.

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- volatility in the trading markets generally and in our particular market segment;
- limited trading of our common stock;
- actual or anticipated fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements regarding our business or the business of our customers or competitors;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- developments or disputes concerning our intellectual property or our offerings, or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- any major change in our board of directors or management;
- sales of shares of our common stock by us or by our stockholders;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism, pandemics (such as the COVID-19 virus) or responses to these events.

Statements of, or changes in, opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the markets in which we operate or expect to operate could have an adverse effect on the market price of our common stock. In addition, the stock market as a whole, as well as our particular market segment, has from time to time experienced extreme price and volume fluctuations, which may affect the market price for the securities of many companies, and which often have appeared unrelated to the operating performance of such companies. Any of these factors could negatively affect our stockholders' ability to sell their shares of common stock at the time and price they desire.

A decline in the price of our common stock could affect our ability to raise further working capital, which could adversely impact our ability to continue operations.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. We may attempt to acquire a significant portion of the funds we need in order to conduct our planned operations through the sale of equity securities; thus, a decline in the price of our common stock could be detrimental to our liquidity and our operations because the decline may adversely affect investors' desire to invest in our securities. If we are unable to raise the funds we require for all of our planned operations, we may be forced to reallocate funds from other planned uses and may suffer a significant negative effect on our business plan and operations, including our ability to develop new products or services and continue our current operations. As a result, our business may suffer, and we may be forced to reduce or discontinue operations. We also might not be able to meet our financial obligations if we cannot raise enough funds through the sale of our common stock and we may be forced to reduce or discontinue operations.

Because we do not intend to pay any cash dividends on our shares of common stock in the near future, our stockholders will not be able to receive a return on their shares unless and until they sell them.

We intend to retain a significant portion of any future earnings to finance the development, operation and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the near future. The declaration, payment, and amount of any future dividends will be made at the discretion of our board of directors, and will depend upon, among other things, the results of operations, cash flows, and financial condition, operating and capital requirements, and other factors as our board of directors considers relevant. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividend. Unless our board of directors determines to pay dividends, our stockholders will be required to look to appreciation of our common stock to realize a gain on their investment. There can be no assurance that this appreciation will occur.

Because our directors and executive officers are among our largest stockholders, they can exert significant control over our business and affairs and have actual or potential interests that may depart from those of investors.

Certain of our executive officers and directors own a significant percentage of our outstanding capital stock. As of the date of this Annual Report, we estimate that our executive officers and directors and their respective affiliates beneficially own approximately 17.2% of our outstanding voting stock as of May 5, 2020. The holdings of our directors and executive officers may increase further in the future upon vesting or other maturation of exercise rights under any of the options or warrants they may hold or in the future be granted, or if they otherwise acquire additional shares of our common stock. The interests of such persons may differ from the interests of our other stockholders. As a result, in addition to their board seats and offices, such persons will have significant influence and control over all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment to our articles of incorporation or bylaws;
- to effect or prevent a merger, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our stockholders for a vote.

This concentration of ownership by itself may have the effect of impeding a merger, consolidation, takeover, or other business consolidation, or discouraging a potential acquirer from making a tender offer for our common stock, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

Our common stock has been categorized as “penny stock,” which may make it more difficult for investors to sell their shares of common stock due to suitability requirements.

The Securities and Exchange Commission has adopted regulations which generally define a “penny stock” to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”. The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and Exchange Commission that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

The Financial Industry Regulatory Authority, Inc., or FINRA, has adopted sales practice requirements that historically may have limited a stockholder’s ability to buy and sell our common stock, which could depress the price of our common stock.

In addition to the “penny stock” rules described above, FINRA has adopted rules that require that, in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives, and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. Thus, the FINRA requirements historically has made it more difficult for broker-dealers to recommend that their customers buy our common stock, which could limit your ability to buy and sell our common stock, have an adverse effect on the market for our shares, and thereby depress our price per share of common stock.

The elimination of monetary liability against our directors, officers, and employees under Nevada law and the existence of indemnification rights for our obligations to our directors, officers, and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers, and employees.

Our articles of incorporation and bylaws contain provisions permitting us to eliminate the personal liability of our directors and officers to us and our stockholders for damages for the breach of a fiduciary duty as a director or officer to the extent provided by Nevada law. In addition, we have entered into indemnification agreements with our directors and officers to provide such indemnification rights. We may also have contractual indemnification obligations under any future employment agreements with our officers. The foregoing indemnification obligations could result in us incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and the resulting costs may also discourage us from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit us and our stockholders.

Our ability to attract and retain qualified members of our board of directors may be impacted due to new state laws, including recently enacted gender quotas.

In September 2018, California enacted SB 826 requiring public companies headquartered in California to maintain minimum female representation on their boards of directors as follows: by the end of 2019, at least one woman on its board, by the end of 2021, public company boards with five members will be required to have at least two female directors, and public company boards with six or more members will be required to have at least three female directors. Failure to achieve designated minimum levels in a timely manner exposes such companies to costly financial penalties and reputational harm. We cannot assure that we can recruit, attract and/or retain qualified members of the board and meet gender quotas as a result of the California law (should is not be repealed before the compliance deadlines), which may cause certain investors to divert their holdings in our stock and expose us to penalties and/or reputational harm.

Anti-takeover effects of certain provisions of Nevada state law hinder a potential takeover of us.

Nevada has a business combination law that prohibits certain business combinations between Nevada corporations and “interested stockholders” for three years after an “interested stockholder” first becomes an “interested stockholder,” unless the corporation’s board of directors approves the combination in advance. For purposes of Nevada law, an “interested stockholder” is any person who is (i) the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting shares of the corporation or (ii) an affiliate or associate of the corporation and at any time within the three previous years was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the then-outstanding shares of the corporation. The definition of the term “business combination” is sufficiently broad to cover virtually any kind of transaction that would allow a potential acquirer to use the corporation’s assets to finance the acquisition or otherwise to benefit its own interests rather than the interests of the corporation and its other stockholders.

The potential effect of Nevada’s business combination law is to discourage parties interested in taking control of us from doing so if these parties cannot obtain the approval of our board of directors. Both of these provisions could limit the price investors would be willing to pay in the future for shares of our common stock.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Common Stock

Shares Issued for Services – During the three months ended March 31, 2020, we issued 320,601 shares of our common stock to vendors for services rendered with a fair value of \$321,000. These shares of our common stock were valued based on the market value of our common stock price at the issuance date or the date we entered into the agreement related to the issuance. We issued the shares in reliance on the exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, in that the shares of our common stock were issued by us in a transaction not involving any public offering.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

Reference is made to the exhibits listed on the Index to Exhibits.

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (^)
31.2	Certification of Principal Financial Officer and Principal Accounting Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (^)
31.3	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (*)
31.4	Certification of Principal Financial Officer and Principal Accounting Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (*)
32.1	Certification of Principal Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (^)
32.2	Certification of Principal Financial Officer and Principal Accounting Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (^)
32.3	Certification of Principal Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (*)
32.4	Certification of Principal Financial Officer and Principal Accounting Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (*)
101.INS	Inline XBRL Instance Document (*)
101.SCH	Inline XBRL Taxonomy Extension Schema (*)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase (*)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase (*)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase (*)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase (*)

(^) Filed previously with the registrant's Form 10-Q on May 15, 2020.

(*) Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

VERB TECHNOLOGY COMPANY, INC.

Date: June 4, 2020

By: /s/ Rory J. Cutaia

Rory J. Cutaia
President, Chief Executive Officer,
Secretary, and Director
(Principal Executive Officer)

Date: June 4, 2020

By: /s/ Jeffrey Clayborne

Jeffrey Clayborne
Chief Financial Officer
(Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Rory J. Cutaia, certify that:

1. I have reviewed this Amendment No. 1 to the Quarterly Report on Form 10-Q of Verb Technology Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 4, 2020

/s/ Rory Cutaia

Rory Cutaia
President, Secretary, Chief Executive Officer, Director, and Principal Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey Clayborne, certify that:

1. I have reviewed this Amendment No. 1 to the Quarterly Report on Form 10-Q of Verb Technology Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 4, 2020

/s/ Jeffrey Clayborne

Jeffrey Clayborne
Chief Financial Officer, Principal Financial Officer, and Principal Accounting Officer

**CERTIFICATION PURSUANT TO
SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

The undersigned, Rory J. Cutaia, hereby certifies, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, that

1. The Amendment No. 1 to the Quarterly Report on Form 10-Q of Verb Technology Company, Inc. for the quarterly period ended March 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Amendment No. 1 to the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Verb Technology Company, Inc.

June 4, 2020

/s/ Rory Cutaia

Rory J. Cutaia
President, Secretary, Chief Executive Officer,
Director, and Principal Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

The undersigned, Jeffrey Clayborne, hereby certifies, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, that

1. the Amendment No. 1 to the Quarterly Report on Form 10-Q of Verb Technology Company, Inc. for the quarterly period ended March 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Amendment No. 1 to the Quarterly Report Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Verb Technology Company, Inc.

June 4, 2020

/s/ Jeffrey Clayborne

Jeffrey Clayborne

Chief Financial Officer, Principal Financial Officer, and Principal Accounting Officer
