

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2017**

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

For the transition period from _____ to _____

Commission file number: **000-55370**

Capital Art, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

27-0746744

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

6445 South Tenaya Way, B-130

Las Vegas, Nevada

(Address of principal executive offices)

89113

(Zip Code)

Registrant's telephone number: **702-722-6113**

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Securities registered under Section 12(b) of the Exchange Act:

Title of each class

none

Name of each exchange on which registered

not applicable

Securities registered under Section 12(g) of the Exchange Act:

Title of each class

Common Stock, par value of \$0.0001

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

Yes No

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

Indicate by checkmark 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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes [] No [X]**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Yes [] No [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company.

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. **\$11,174,880**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **325,218,584 common shares as of April 30, 2018**



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PART I

Item 1. Business

Overview

We were originally incorporated on September 20, 2004, in the State of Delaware under the name “Blog8.” Since incorporation, we have changed our name numerous times and have been known as “Securiteyes,” “Medify Solutions Limited,” “Petel Incorporated” and “Gleeworks, Inc.” We amended our Certificate of Incorporation and changed our name to Capital Art, Inc. on April 28, 2011.

We currently are engaged in the business of selling and managing classic and contemporary, limited edition photographic images and reproductions, with a focus on iconic celebrity images, by acquiring ownership or rights to collections of rare iconic negatives and photographs. We also make available images for publications and merchandising by third parties. Our business is in its early stages and consequently our financial results are difficult to compare from one period to the next. We expect such period-to-period differences to continue to be significant over the next several quarters, until we have a number of full years of operations.

Our objective is to become the largest repository of archival pop culture photography in the online world. To this end, we have been and continue to search for photographic archives. We have amassed our current inventory and rights to photographic images and reproductions from a series of acquisitions that started in 2011. These past few years of acquisitions have resulted in an impressive collection for our company, including the rights to the Frank Worth collection, Globe Photos and the rights or ownership to millions of photos and negatives. Archived and stored in our warehouse are boxes of never seen before negatives, one-of-a-kind prints and other memorabilia. We have rare images of celebrity icons, such as Elvis Presley, James Dean, Marilyn Monroe, and many others, which have never been seen by the public.

As part of increasing our product offerings, we plan to continue our search for photographic archives that are undervalued by the market. These archives may be acquired outright, or we may enter into representation or consignment agreements with the owners of the archives. These opportunities are typically (1) aging photographers who are looking to monetize their archive while still alive via a single large transaction, or (2) media companies that have aggregated assets (or rights to assets) and are seeking to dispose of the archive or a partner who can help them grow cash flows related to the archive. These opportunities exist both in the United States and abroad and we continue to search for value wherever it may be geographically located.

Our business is to monetize the value of our collection. We sell our photographic images and reproductions through auctions, third-party galleries, art consultants, interior decorators, bricks and mortar locations, specialty and big box retailers and directly to end consumers. We reach our customers through diverse marketing channels, including our websites, events and interactive campaigns. We also reproduce mass quantities of different photographs from our collection, which are sold through third party on-line retailers. We are continually exploring these and other marketing possibilities and we expect to continue our efforts to pursue contracts and to diversify our revenues.

Our principal place of business is located at 6445 South Tenaya Way, Suite B-130, Las Vegas, NV 89113. General information about us can be found at www.capitalart.com. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the SEC.

Business Strategy

Our business is generated through operations of our three divisions, including:

- Sale of original vintage prints. On May 11, 2015 we entered into an exclusive marketing agreement with a distributor to distribute our vintage original fine art prints to fine art dealers and collector auction houses, as well as private third-party collectors. Under the terms of the agreement the distributor receives 50% of the gross receipts from sales generated by it.
- Sale of fine art prints, including limited editions; and
- Sale of open edition prints and other digital images. Currently, we offer these on 10 different independent websites.
- Licensing of images.

Sales, Marketing and Distribution

We do not have an in-house sales staff. We reach our customers through diverse marketing channels, including our website, events and interactive campaigns. Marketing activities aim to build awareness for our brands and drive revenue by promoting newly acquired images as well as images existing in our collection.

As of the date of this Report we are in the process of setting up individual divisions to target the Interior Design industry, the Fund-Raising and Hospitality industries. The Company is in discussions with several independent sales representatives to market the Company's products to these specific industries on a commission basis. We have exhibited at the World Market Place tradeshow twice in the past five years. Currently only a small percentage of our revenues is associated with these divisions. However, while no assurances can be provided, we expect significant growth over the next 3-5 years through interactive campaigns conducted with up to 50 unaffiliated online retainers, including 1stdibs and other targeted niche websites such as Fanatics, Icanvas, art.com, paddle8.com, artnet.com and to name a few.

We sell our photographic images and reproductions through auctions, third-party galleries, art consultants, interior decorators and directly to consumers. We also reproduce mass quantities of different photographs from our collection, which are sold through third party on-line retailers.

We have several websites, each targeted to specific consumers including high-end fine art, and lower end open edition prints. We have identified over 50 third-party online retailers that we can sell through and give a percentage of sales to each of the online retailers. These percentages usually average around 20%. We have several programs currently in place with websites including 1st dibs, Fanatics, Icanvas, art.com, art net, artspace, Lumas and others and expect to expand these sales in 2018.

We expect to continue to pursue contracts to diversify revenues, and to develop additional websites for retail clients to purchase our prints, but also as a portal for our interior decorators, a new gallery concept in Santa Monica, California, is expected to launch by June 2018, third-party gallery and charity partners. The downside is that there are a limited number of interior decorators, and charity partners which produce higher revenues than on-line sales, and while we actively pursue such contracts, our success will depend upon our ability to obtain such contracts for sales and also upon our ability to acquire a larger depository.

In November 2014 we entered into an agreement with Fiero LLC ("Fiero") to have Fiero build a website that will act not only as a site for retail clients to purchase our prints, but also as a portal for our interior decorator, third party gallery and charity partners. The agreement provided for Fiero to provide website design, development, content management systems, ecommerce and auction integration and administration that includes behavioral design infrastructure and data integration with our internal systems. The agreement also provided for post-production support, hosting service, site monitoring and reporting functions. The total cost was \$193,000, including a cash payment of \$40,000 and the issuance of 510,000 shares of our Common Stock. Fiero ceased operations in December 2016, prior to fulfilling their obligations under the agreement. As of December 31, 2015, 170,000 shares of these common shares had been issued. Subsequently, we issued an additional 229,300 shares, leaving 110,700 shares unissued. We subsequently retained High Touch Solutions to handle our website design work. High Touch Solutions has assisted the company in a re-launch of our licensing site, www.globephotos.com in 2017 and the retail version of globe photos website is scheduled to launch mid-2018, High Touch solutions has also been instrumental in establishing our online social media campaigns on Facebook, Twitter, Instagram and other sites. We will focus on growth in this area in 2018.

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On January 1, 2015, we entered in a 12-month agreement for non-exclusive investment banking advisory services with Vista Partners for total consideration of 2,000,000 shares of our Common Stock. The agreement was subsequently extended an additional 6-months with no other changes or consideration to the terms of the original agreement. The shares were payable within 14 days of the effective date of the agreement and deemed earned in full upon execution of the agreement. The shares were issued in May 2015. The agreement may be renewed for an additional 12-month term whereby we, in our sole discretion, may elect to pay the investment banking advisor \$400,000 cash or an equivalent amount in shares of our common stock based upon the thirty-day volume weighted average price for thirty trading days prior to renewal. This agreement was not extended.

We are exploring the possibility of opening company-owned galleries in Las Vegas and other major cities like Los Angeles. However, as of the date of this report we have no definitive plans or arrangements with respect to operating galleries. We will be licensing our name and participating in a new business concept with a test gallery scheduled to launch in June 2018 in Santa Monica under the Celebrity Vault brand. The goal is to license similar galleries to independent operators across the globe. We are adding relationships with third party galleries, websites and interior decorators that can sell our images to their clients. We are also creating a charity sales plan whereby charities can use our photos for fund raising activities. We have made over 3 million images available for publication on a world-wide basis for print and digital licensing where we would be paid royalties when our photographs are used. We continue to expand partnerships with major companies who can sell our prints to their client base on a revenue-split basis. These companies include Art.com, Fanatics and other online and bricks and mortar companies. There are no assurances these efforts will be successful.

Licensing

In 2017 the Company entered into a licensing arrangement with Authentic Brands Group, ABG, to license our images of Muhammad Ali, Marilyn Monroe, and Elvis Presley as “Officially Licensed Products” and incorporating their signatures and iconic sayings onto the images. We plan to test these products into retail in 2018 across a broad retail platform both online and in big box and specialty retailers.

Competition

Most of our competitors have substantially greater financial, technical and human resources than we have. The market for iconic photographic images and related services is highly competitive. We believe that the principal competitive factors include name recognition, company reputation, the quality, relevance and breadth of the content in a company’s collections, Licenses and the quality of contributing photographers and other partners under contract with a company. Additionally, we also face competition in connection with factors relating to the business and our infrastructure such as effective use of current and emerging technology, customer service and customer relationships, pricing and licensing models, policies and practices and accessibility of content and speed and ease of search and fulfillment.

Some of our current and potential significant competitors include other general visual content providers such as Corbis and Shutterstock. We also face significant competition from specialized visual content companies that are well established in their local, content or product-specific market segments such as Reuters Group, the Associated Press, and ZUMA Press, Inc. Globe Photos our licensing division is small in relation to these larger firms, but is celebrating its 80th anniversary in 2018 and has significant historical value as the nation’s oldest pop culture-licensing agency. Globe Photos currently services over 2500 global clients including every major news organization in the world, production companies, publishing houses and more.

There are also hundreds, if not thousands, of small photography agencies, image content aggregators and individual photographers throughout the world with whom we compete.

Our competition includes retail photography galleries and websites selling photography such as art.com, artspace.com and rockpaperphoto.com. We believe that we are highly competitive because we own many of our photographic negatives and do not have to split sales proceeds with photographers who own their intellectual property rights, which is the industry standard.

Intellectual Property

Much of our collection of iconic photographic images were acquired and are owned by us. A small percentage of the images in our collection are obtained through reproduction or licensing agreements, wherein we pay a royalty based on the percentage of revenues we receive from the use of the licensed images. As such, currently such agreements are limited and not material.

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To this end, we have been and continue to search for photographic archives. Based upon our successes over the past 36 months, we believe that these archives can be monetized multiple ways, through our collectibles, licensing and retail divisions, depending upon the structure and content of each archive. These archives may be purchased outright, or we may enter into reproduction or licensing agreements with the owners of the archives. These opportunities are typically (1) photographers who are looking to monetize their archives, or (2) media companies that are either seeking to dispose of the archive or seeking a method to derive revenues from the archive. These opportunities exist both in the United States and abroad and we continue to search for value wherever it may be geographically located.

Our management believes that the market is significantly undervaluing physical photographic assets for both individual photographers seeking to monetize their collections and media companies seeking to dispose of their archives because of the investment required to digitize and then monetize them. We have created an infrastructure and workflow process in order to digitize these assets at a low cost which we believe gives us a competitive advantage for purchasing from all sources.

We utilize the following criteria when evaluating archives:

- The age of the archives;
- How/If the archive is organized;
- The type of media in the archive;
- The subject matter of the archive;
- The rarity of the subject matter;
- The photographer(s) represented in the archive; and
- The nature and the strength of the rights associated with the archive.

In this respect single photographer archives are desirable because copyrights are often easily ascertained to be owned by the photographer. We can market and build the reputation of the photographer to enhance the value of the archive. In addition, we believe we can better control the market for the works of individual photographers. Reproduction and licensing agreements are often more desirable because they typically require low or no upfront cash commitments. In these agreements content providers are usually paid mostly through royalties on sales. Owning copyright or having rights to copyrights significantly impact our gross margins. On the other hand, purchasing copyrights outright while reducing cash, increases intangible assets and generates higher gross margins. Reproduction and licensing agreements do not significantly impact our balance sheet but generate much lower gross margins.

Our ability to acquire such depository is dependent on our ability to raise additional capital in order to have funds to make such acquisitions.

Employees

As of December 31, 2017, we had 3 employees, all of which were full-time, including one CEO, one marketing, and a business development person. We also utilize consultants on an as needed basis. None of our employees are members of any union. We believe our relationship with our employees is excellent.

Government Regulations

We are not subject to any extraordinary governmental regulations.

Item 1A. Risk Factors

Risks Related to Our Business

Because we have a limited operating history, you may not be able to accurately evaluate our operations.

We have had limited operations to date and have generated only a small amount of revenue. Therefore, we have a limited operating history upon which to evaluate the merits of investing in our company. Because we are in the early stages of operating our business, we are subject to many of the same risks inherent in the operation of a business with a limited operating history, including the potential inability to continue as a going concern.

Although we have a large customer base, currently the company is dependent on one of its Divisions for a significant amount of its revenues.

For the twelve months ended December 31, 2017, the Collectibles Division accounted for over 72% of total revenues. Management has instituted aggressive direct-to-consumer marketing, implemented programs with third-party re-sellers as well as bricks and mortar, and online retailers. We have also begun to enhance and market our licensing division, Globe Photos, LLC. Additionally, we have invested considerable time and monies in the development of software to more efficiently ingest images and push them through to our retail and licensing channels that is expected to help scale each division considerably. Despite these efforts, there is no certainty regarding how or if the market for our products will continue to develop, or whether such market will decline. Our ability to attract and retain customers will depend in part on our ability to sign up a significant number of galleries, third party websites, interior decorators and charities that will market to their clients, and our ability to drive business to our website. Moreover, the market for our products is comprised primarily of collectors, which market is limited and subject to changes in popular trends, demographics, disposable income, and overall interest in such products. There can be no guarantee that the market for our products will grow or that demand for our products will continue. If it does not, we could go out of business.

We are dependent on outside financing for continuation of our operations.

Because our revenue is not sufficient to cover our operating expenses and we currently operate at a significant loss, we are completely dependent on the continued availability of financing in order to continue our business. There can be no assurance that financing sufficient to enable us to continue our operations will be available to us in the future. Moreover, even if we are able to obtain financing, it could be on terms that causes our company's stock price to suffer or further dilutes shareholder interests in our company. Our failure to obtain future financing, financing on terms that are acceptable to us, or to produce levels of revenue to meet our financial needs could result in our inability to continue as a going concern and, as a result, investors in our company could lose their entire investment.

If we are unable to compete in our industry, our business will fail.

The photographic art industry is and has been intensely competitive, and we expect competition to intensify in the future. We expect competition to increase because of changes in the media industry, changing advertising practices, technological advances leading to relatively inexpensive creation, marketing and distribution of visual content, and a lack of substantial barriers to entry. Our competitors range in size from significant media companies to individual visual content and digital media content producers. While we believe the breadth of our businesses and product and service portfolio offers benefits to our customers that are a competitive advantage, our current or potential competitors may develop products, licensing models, technology or services comparable or superior to those that we develop or may adapt more quickly than we do to new or emerging technologies or evolving industry trends. Increased competition or more effective competitors could result in lost market share, having to reduce prices or otherwise having reduced revenue, lower margins, increased capital expenditures, or otherwise negatively impact our operating results. There can be no assurance that we will be able to compete successfully against current and future competitors.

Any future litigation could have a material adverse impact on our results of operations, financial condition and liquidity.

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From time to time we may be subject to litigation, including potential stockholder derivative actions. Risks associated with legal liability are difficult to assess and quantify, and their existence and magnitude can remain unknown for significant periods of time. We have acquired (“D&O”) liability insurance to cover such risk exposure for our directors and officers. In addition, the company is increasing its general liability insurance and acquiring errors and omissions coverage (“E&O”). The Company also carries Fine Art Commercial, employee health and workman’s compensation policies. Despite the measures taken, actions may exceed or the policies might not cover future litigation. The amounts we would have to pay to indemnify our officers and directors should they be subject to legal action or any other action that we are exposed to could have a material adverse effect on our financial condition, results of operations and liquidity.

Our success is dependent in part on obtaining, maintaining and enforcing our intellectual property rights and our ability to avoid infringing on the intellectual property rights of others.

Our intellectual property rights are very important to our business. We rely on a combination of copyright, trade secret, trademark, and other rights in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property. As most of our assets relate to photographs, we deal primarily in copyrights, which do not necessarily have to be registered rights until enforced. Despite our efforts to protect our proprietary rights, third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights. Policing unauthorized use of our products and intellectual property rights is difficult and nearly impossible on a worldwide basis. Therefore, we cannot be certain that the steps we have taken or will take in the future will prevent misappropriations of our intellectual property rights.

Misappropriation or infringement of our intellectual property and proprietary rights could impair our competitive position. Enforcement actions to protect our intellectual property could be costly and could materially and adversely affect our business, results of operations and financial condition and may not always be successful. Policing unauthorized use of our proprietary rights is difficult. We cannot ensure that the steps taken by us will prevent misappropriation of our products and intellectual rights or that the agreements entered into for that purpose will be enforceable. Effective trademark, service mark, patent, copyright and trade secret protection may not be available where our products and services are made available on-line. In addition, litigation may be necessary to enforce or protect our intellectual property rights or to defend against claims of infringement or invalidity. Litigation, even if successful, could result in substantial costs and diversion of resources and management attention and could materially and adversely affect our business, results of operations and financial condition.

Moreover, in the event a competitor or other party successfully challenges our intellectual property or claims that we have infringed upon their intellectual property, we could incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

Our growth strategy requires us to expand our website which can expose us to data security breaches or service disruptions

The risk of a data security breach or service disruption caused by computer hackers and cyber criminals has increased as the frequency, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Such risk also increases as we expand our presence on the web and increase on-line sales. Our systems have not been, but may in the future be, the target of various forms of cyber-attacks. Our cybersecurity measures and the cybersecurity measures taken by our third-party hosting facilities may be unable to anticipate, detect or prevent all attempts to compromise our systems. Any security breach, whether successful or not, could harm our reputation, subject us to lawsuits and other potential liabilities and ultimately could result in the loss of customers and loss of revenue.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by

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regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

If we fail to adequately manage the size of our business, it could have a severe negative effect on our financial results or stock price.

Our management believes that in order to be successful we must appropriately manage the size of our business. This may mean reducing costs and overhead in certain economic periods, and selectively growing in periods of economic expansion. In addition, we will be required to implement operational, financial and management information procedures and controls that are efficient and appropriate for the size and scope of our operations. The management skills and systems currently in place may not be adequate and we may not be able to manage any significant cost reductions or effectively provide for our growth.

If we fail to attract and retain qualified senior executive and key technical personnel, our business will not be able to expand.

We are dependent on the continued availability of the services of our employees, many of whom are individually key to our future success, and the availability of new employees to implement our business plans. We rely heavily on the experience of our officers and directors in overseeing and implementing our business plan. As we move forward we will need to engage professionals with various specific experience. We will need individuals experienced in design, photo editing and creativity. We will also need to identify sales and marketing professionals with specific experience in selling into certain channels of distribution.

The market for skilled employees is highly competitive, especially for employees in technical fields. There can be no assurance that we will be able to retain the services of all our key employees or a sufficient number to execute our plans, nor can there be any assurance we will be able to continue to attract new employees as required.

Our personnel may voluntarily terminate their relationship with us at any time, and competition for qualified personnel, is intense. The process of locating additional personnel with the combination of skills and attributes required to carry out our strategy could be lengthy, costly and disruptive.

If we lose the services of key personnel, or fail to replace the services of key personnel who depart, we could experience a severe negative effect on our financial results and stock price. In addition, there is intense competition for highly qualified industry specific and business savvy personnel in the locations where we principally operate. The failure to acquire the services of any key design, marketing or other personnel or our failure to attract, integrate, motivate and retain additional key employees could have a material adverse effect on our business, operating and financial results and stock price.

Because we have material weaknesses in our internal control procedures, our stock price could decline significantly.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. We have documented material weaknesses in our controls. Because of these material weaknesses, our management believes that as of December 31, 2017, our internal controls over financial reporting were not effective and investors could lose confidence in our Company and result in a decline in our stock price and consequently affect our financial condition. In addition, if we fail to achieve and maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our Common Stock could drop significantly. In addition, we cannot be certain that additional material weaknesses or significant deficiencies in our internal controls will not be discovered in the future.

Insiders will continue to have substantial control over us and our policies after this offering and will be able to influence corporate matters.

Our directors and officers, whose interests may differ from other stockholders, have the ability to exercise significant control over us. Presently, Stuart Scheinman beneficially owns a majority of our common stock. He is able to exercise significant influence over all matters requiring approval by our stockholders, including the election of directors, the approval of significant corporate transactions, and any change of control of our company. He could prevent transactions, which would be in the best interests of the other shareholders. The interests of our officers and directors may not necessarily be in the best interests of the shareholders in general.

Risks Relating to Our Securities

If a market for our common stock does not develop, shareholders may be unable to sell their shares.

Our common stock is quoted under the symbol "CAPA" on the OTCQB operated by OTC Markets Group, Inc., an electronic inter-dealer quotation medium for equity securities. We do not currently have an active trading market. There can be no assurance that an active and liquid trading market will develop or, if developed, that it will be sustained.

Our securities are very thinly traded. Accordingly, it may be difficult to sell shares of our common stock without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could continue to result in major fluctuations in the price of the stock.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control.

Our stock price is subject to a number of factors, including:

- intellectual property disputes;
- additions or departures of key personnel;
- sales of our common stock;
- our ability to integrate operations, technology, products and services;
- our ability to execute our business plan;
- operating results below or exceeding expectations;
- whether we achieve profits or not;
- loss or addition of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

Our stock price may fluctuate widely as a result of any of the above. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Because we are subject to the "Penny Stock" rules, the level of trading activity in our stock may be reduced.

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any listed, trading equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. The penny stock rules require a broker-dealer, prior to a transaction in a

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penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also 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. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer 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 a stock that becomes subject to the penny stock rules which may increase the difficulty Purchasers may experience in attempting to liquidate such securities.

We do not expect to pay dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will occur only if our stock price appreciates.

Provisions in the Delaware law and our Bylaws could make it very difficult for an investor to bring any legal actions against our directors or officers for violations of their fiduciary duties or could require us to pay any amounts incurred by our directors or officers in any such actions.

Members of our board of directors and our officers will have no liability for breaches of their fiduciary duty of care as a director or officer, except in limited circumstances, pursuant to provisions in the Delaware law and our Bylaws. Accordingly, you may be unable to prevail in a legal action against our directors or officers even if they have breached their fiduciary duty of care. In addition, our Bylaws allow us to indemnify our directors and officers from and against any and all costs, charges and expenses resulting from their acting in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood, we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay. Accordingly, our indemnification obligations could divert needed financial resources and may adversely affect our business, financial condition, results of operations and cash flows, and adversely affect prevailing market prices for our common stock.

Item 2. Properties

Our principal executive office and headquarters is located at 6445 South Tenaya Way, B-130, Las Vegas, Nevada 89113 where we lease 4,606 square feet of commercial space for a monthly rental payment of \$3,270 per month effective October 10, 2014. The lease expires in 60 months from October 10, 2014. We also lease storage space locally to house art and photography stock. Our printing, framing, packing and shipping facilities are provided by third-parties. We also rent storage space on a month-to month basis in Brooklyn, NY, at a cost of \$325 per month.

Item 3. Legal Proceedings

We were not party to any outstanding litigation, nor had we received notice of any pending action to be filed against us. Aside from the following, we are currently not a party to any material pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us. Recently, we successfully resolved one action as described below.

On July 6, 2016, Stuart Harris, as an individual and as Executor of the Estate of Frank Worth (“Claimant”) filed a Statement of Claim with the American Arbitration Association against us alleging breach of the Frank Worth Reproduction Rights Agreement entered into on November 18, 2011 for royalties allegedly due. The Frank Worth Reproduction Rights Agreement called for royalty payments to be paid to Claimant by us for the exclusive global reproduction rights to all negatives, prints, products and other materials from the Frank Worth collection. However, on November 12, 2014, Claimant had previously agreed to accept \$155,000 and 200,000 shares of our Common Stock in exchange for sole and exclusive, world-wide, royalty free rights to all negatives, prints, products and other materials in our possession, including the use of the Frank Worth seal, Frank Worth’s name, likeness, publications and biography plus merchandising and selling rights. We paid \$30,000 to the Claimant in January 2015 in connection with the November 12, 2014 agreement. The Statement of Claim also sought an award for breach of the November 12, 2014 agreement.

We made no further payments under the November 12, 2014 agreement because we believed that Claimant sold the rights to 38 key images to Apsara, Inc. in 2007 and failed to disclose such prior sale to us. We also brought a counterclaim for breach of the November 12, 2014 agreement against Claimant for failure to disclose the previous sale of 38 key images which we had purchased under the Frank Worth Reproduction Rights Agreement and the subsequent November 12, 2014 agreement.

On October 18, 2016, an arbitration hearing was held on this matter. On October 28, 2016, the arbitrator issued an amended award, finding the 2011 Agreement to remain valid, but also recognizing our demand for clean title to the 38 Key images. Thus, we were ordered to pay Claimant \$70,000 as final payment due under the November 12, 2014 agreement, payable to the Claimant no later than February 23, 2017. We were granted an award for delivery of clean title of the 38 Key images no later than February 23, 2017. In the event, Claimant provides such clean title by such deadline, the parties have the option to comply with the 2011 agreement and enter into negotiations for a new royalty agreement on the 38 Key images. In the event Claimant does not deliver clean title, we shall retain possession of the entire collection, including the 38 Key images with no further obligation to pay royalties. Claimant failed to deliver clean title by February 23, 2017.

In the interim, the Company learned that Claimant is the subject of an action in a California Probate Court action challenging his actions as Executor of the Estate after March 2008. At that time Claimant was discharged as Executor of the Estate and he had no legal authority from that point on to represent the interests of the Estate, including entering into the agreements that were the subject of the Arbitration. That information has led the Company to secure the \$70,000 final payment until such time as the California Probate Court determines the appropriate recipient.

Finally, on January 26, 2017, Claimant filed a separate civil suit against us in Nevada District Court. This new suit seeks to vacate the decision of the Arbitrator in the Binding Arbitration. Claimant is dissatisfied with the results of the Binding Arbitration, notwithstanding his agreement to be bound by the decisions of the Arbitrator. We have challenged whether Claimant has standing to pursue this action because of his lack of status as an Executor, and his lack of any status as a Beneficiary of the Estate.

On February 28, 2017, the parties agreed to dismiss this action with prejudice. On September 15, 2017, the final \$70,000 payment was made in full.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is quoted under the symbol "CAPA" on the OTCPink operated by OTC Markets Group, Inc. Only a limited market exists for our securities. There is no assurance that a regular trading market will develop, or if developed, that it will be sustained. Therefore, a shareholder may be unable to resell his securities in our company.

The following tables set forth the range of high and low bid information for our common stock for the each of the periods indicated as reported by the OTCPink. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Fiscal Year Ending December 31, 2017		
Quarter Ended	High \$	Low \$
December 31, 2017	0.35	0.15
September 30, 2017	0.50	0.15
June 30, 2017	0.50	0.25
March 31, 2017	0.78	0.25

Fiscal Year Ending December 31, 2016		
Quarter Ended	High \$	Low \$
December 31, 2016	0.29	0.12
September 30, 2016	0.20	0.16
June 30, 2016	0.40	0.13
March 31, 2016	0.51	0.40

On April 30, 2018, the last sales price per share of our common stock was \$0.10.

Penny Stock

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those 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 acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

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These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

Holders of Our Common Stock

As of April 30, 2018, we had 325,218,584 shares of our common stock issued and outstanding, held by approximately 217 shareholders of record at our transfer agent, with additional shareholders holding our shares in street name.

Dividends

We currently intend to retain future earnings for the operation of our business. We have never declared or paid cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

We do not have any equity compensation plans as of December 31, 2017.

Recent Sales of Unregistered Securities

In April 2017, the board has approved the issuance, but has not yet issued, 2,083,333 shares of common stock at fair value of \$0.05 per share for 2015 services rendered by a consultant.

Subsequent to year end, we granted 10 year options to purchase 15,283,433 shares of common stock with exercise prices ranging from \$0.01 to \$0.05 to various consultants for services.

These securities were issued pursuant to Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder. The holders represented their intention to acquire the securities for investment only and not with a view towards distribution. The investors were given adequate information about us to make an informed investment decision. We did not engage in any general solicitation or advertising. We directed our transfer agent to issue the stock certificates with the appropriate restrictive legend affixed to the restricted stock.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements.” These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Results of Operations for the Years Ended December 31, 2017 and 2016

Revenues

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Our total revenue reported for the year ended December 31, 2017 was \$939,252, compared with \$864,426 for the year ended December 31, 2016. The change is primarily a result of increased sales from the Company's collectables division and licensing sales. We expect revenue growth to accelerate in 2018 as a result of the foundations laid in 2016 and 2017.

For the twelve months ended December 31, 2017, the Collectibles Division accounted for over 72% of total revenues. Management has instituted aggressive direct-to-consumer marketing, implemented programs with third-party re-sellers as well as bricks and mortar, and online retailers. We have also continued to enhance and market our licensing division, Globe Photos, LLC. Additionally, we have invested considerable time and monies in the development of software to more efficiently ingest images and push them through to our retail and licensing channels that is expected to help scale each division considerably.

There is significant financial risk associated with a dependence upon a small number of distributors and customers which could have an adverse effect on our future consolidated financial statements if these distributors or customers were to leave. We intend to continue our investment in sales and marketing in order to increase distribution and demand for our products and adding content to our product lines, along with adding additional channels of distribution. There are no assurances this will result in increased revenues.

Cost of Revenues

Our total cost of revenues for the year ended December 31, 2017 was \$780,409, compared with \$820,393 for the year ended December 31, 2016. The decrease in cost of revenue for 2017 is due to higher merchandise costs incurred in 2016.

Operating Expenses

Operating expenses increased to \$940,514 for the year ended December 31, 2017 from \$912,660 for the year ended December 31, 2016. The detail by major category is reflected in the table below.

	<u>Year Ended December 31</u>	
	<u>2016</u>	<u>2017</u>
Product development, sales and marketing	\$ 182,725	\$ 317,568
General and administrative	662,331	611,403
Depreciation and amortization expense	67,604	61,543
Gain on sale of property and equipment	—	(50,000)
Total Operating Expenses	<u>\$ 912,660</u>	<u>\$ 940,514</u>

The main reason for the overall increase in operating expenses in 2017 was an increase in the product development, sales and marketing category.

Product development, sales and marketing expenses increased by \$134,843. Product development, sales and marketing expenses primarily consists of website development costs, sales and marketing salaries, as well as other expenses associated with marketing. We continue to utilize our working capital resources in sales and marketing in order to increase the distribution and demand for our products and to add content to our product lines along with adding additional channels of distribution.

General and administrative costs decreased by \$50,928 primarily due to a decrease in investor relation expenses. This decrease was offset by increased costs associated with professional fees in 2017.

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Total depreciation expense decreased by \$6,061. We record archival images, and property and equipment at cost for purchases over \$500. Archival images, property and equipment are depreciated using the straight-line method over the estimated useful lives ranging from three to ten years. We capitalize direct costs associated with improvements to archival images, and property and equipment in accordance with ASC 360 – Property, Plant, and Equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of their useful life or the term of the related lease.

Gain on sale of property and equipment increased by \$50,000 primarily due to the sales of archival assets during 2017.

Net Loss

We finished the year ended December 31, 2017 with a loss of \$847,860, as compared to a loss of \$941,330 during the year ended December 31, 2016. The reasons for specific components are discussed above. Overall, we had an increase in revenue and resulting gross margin offset by increased operating expenses to support future growth.

Liquidity and Capital Resources

As of December 31, 2017, we had total current assets of \$115,110, compared with current liabilities of \$2,394,795, resulting in a working capital deficit of \$2,279,685. This compares with the working capital deficit of \$1,764,220 at December 31, 2016. This increase in working capital, as discussed in more detail below, is primarily the result of a decrease in notes payable and loans payable.

Our operating activities used \$374,271 in the year ended December 31, 2017, as compared with \$522,708 used by operating activities in the year ended December 31, 2016. Our negative operating cash flow for both years was largely the result of our net losses, offset by depreciation and amortization. We anticipate that overhead costs in current operations will increase in the future as our business continues to expand.

Investing activities provided \$19,149 in the year ended December 31, 2017, compared with cash used of \$171,240 in the year ended December 31, 2016. Our positive investing cash flow for 2017 was the result of proceeds from the sale of property and equipment. Our negative investing cash flow for 2016 was the result of purchasing images, property and equipment. We anticipate that our investing expenditures will increase as we expand our collection.

Financing activities provided \$302,385 in the year ended December 31, 2017 compared with \$715,412 in the year ended December 31, 2016. Our positive financing cash flow was the result of notes payable and loans payable, offset by repayments on such.

There is no guarantee we will generate sufficient revenues to continue operations. Our management estimates we will need approximately \$1,000,000 in annual revenues to continue operations at our current operating level, without consideration given to investment in new sales and marketing channels. For the immediate future we plan to achieve this revenue target by ramping up fees earned from licensing imagery to media companies growing a network of global sales agents. There is no guarantee that we will generate sufficient revenues to continue operations. We expect to continue incurring significant operating losses for the near future. If we are not successful in achieving revenues required to continue operations at our current operating levels within three to four months, or obtain additional financing, our operations will be significantly negatively impacted, and we will need to significantly scale back our operations or liquidate all or a portion of our collections.

We believe that our principal difficulty in our ability to successfully generate profits has been the lack of available capital to operate and expand our business. We believe we need a minimum of approximately \$3,000,000 in additional working capital to be utilized for key archive acquisitions, inventory management software, technology development, additional staffing and working capital. As of the date of this Report we have no commitment from any investor or investment-banking firm to provide us with the necessary funding and there can be no assurances we will obtain such funding in the future. Failure to obtain this additional financing will have a material negative impact on our ability to generate profits in the future.

Off Balance Sheet Arrangements

As of December 31, 2017, there were no off balance sheet arrangements.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their most “critical accounting policies” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are disclosed in Note 2 of our audited consolidated financial statements included in this Annual Report filed with the Securities and Exchange Commission.

Recent Accounting Pronouncements

The recent accounting pronouncements that are material to our financial statements are disclosed in Note 2 of our audited financial statements included in this Annual Report filed with the Securities and Exchange Commission.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements Required by Article 8 of Regulation S-X:

Audited Financial Statements:

- F-1 Report of Independent Registered Public Accounting Firm;
- F-2 Consolidated Balance Sheets as of December 31, 2017 and 2016;
- F-3 Consolidated Statements of Operations for the years ended December 31, 2017 and 2016;
- F-4 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017 and 2016;
- F-5 Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016; and
- F-6 Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Capital Art, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capital Art, Inc. and its subsidiaries (collectively, the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

/s/ *MaloneBailey, LLP*

www.malonebailey.com

We have served as the Company's auditor since 2017.

Houston, Texas

May 1, 2018

CAPITAL ART, INC.
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets		
Current Assets		
Cash	\$ 1,297	\$ 54,034
Accounts receivable, net	44,548	91,501
Inventory, net	56,500	10,741
Prepaid expenses	12,765	18,341
Due from related party	—	78,920
Total Current Assets	<u>115,110</u>	<u>253,537</u>
Property and equipment, net	2,493,224	2,843,587
Security deposit	6,356	6,356
Intangible Assets, net	<u>326,250</u>	<u>369,750</u>
Total Assets	<u>\$ 2,940,940</u>	<u>\$ 3,473,230</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 540,947	\$ 602,153
Payable to Globe Photo, Inc.	10,000	10,000
Due to related parties	147,113	32,245
Notes payable - related parties	456,235	471,284
Notes payable, net of debt discount	417,500	494,335
Deferred revenue	75,000	—
Derivative liability	9,195	57,922
Loans payable, net of unamortized discounts	738,805	349,818
Total Current Liabilities	<u>2,394,795</u>	<u>2,017,757</u>
Total Liabilities	<u>2,394,795</u>	<u>2,017,757</u>
Stockholders' Equity		
Preferred stock, \$0.0001 par value, 50,000,000 shares authorized; none issued and outstanding at December 31, 2017 and December 31, 2016	—	—
Common stock par value \$0.0001: 450,000,000 shares authorized; 325,570,524 and 325,570,524 issued and 325,441,032 and 325,570,524 outstanding as of December 31, 2017 and 2016, respectively	32,557	32,557
Additional paid in capital	4,124,243	4,097,711
Treasury stock; 258,823 and 0 shares as of December 31, 2017 and 2016, respectively.	(88,000)	—
Accumulated deficit	(3,522,655)	(2,674,795)
Stockholders' Equity	<u>\$ 546,145</u>	<u>1,455,473</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,940,940</u>	<u>\$ 3,473,230</u>

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

CAPITAL ART, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended	
	December 31, 2017	December 31, 2016
License revenue	\$ 259,212	\$ 191,433
Image revenue	680,040	672,993
Total revenue	<u>939,252</u>	<u>864,426</u>
Cost of revenue	<u>780,409</u>	<u>820,393</u>
Gross margin	158,843	44,033
Operating expenses		
Product development, sales and marketing	317,568	182,725
General and administrative	611,403	662,331
Depreciation and amortization	61,543	67,604
Gain on sale of property and equipment	<u>(50,000)</u>	<u>—</u>
Total operating expenses	<u>940,514</u>	<u>912,660</u>
Loss from operations	<u>(781,671)</u>	<u>(868,627)</u>
Other income (expenses)		
Interest expense	(114,916)	(124,781)
Change in fair value of derivative liabilities	48,727	(2,922)
Gain on the settlement of debt	—	55,000
Other income (expenses)	<u>(66,189)</u>	<u>(72,703)</u>
Net loss	<u>\$ (847,860)</u>	<u>\$ (941,330)</u>
Per-share data		
Basic and diluted loss per share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of common shares outstanding	<u>325,441,032</u>	<u>325,398,392</u>

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

CAPITAL ART, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
Balance, December 31, 2015	325,341,224	\$ 32,534	\$4,051,874	\$ —	\$ (1,733,465)	\$ 2,350,943
Common shares issued for settlement of accrued liabilities	229,300	23	45,837	—	—	45,860
Net loss	—	—	—	—	(941,330)	(941,330)
Balance, December 31, 2016	325,570,524	32,557	4,097,711	—	(2,674,795)	1,455,473
Repurchase of shares	—	—	—	(88,000)	—	(88,000)
Options issued for the purchase of fixed assets	—	—	26,532	—	—	26,532
Net loss	—	—	—	—	(847,860)	(847,860)
Balance, December 31, 2017	325,570,524	\$ 32,557	\$4,124,243	\$ (88,000)	\$ (3,522,655)	\$ 546,145

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

CAPITAL ART, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended	
	December 31, 2017	December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (847,860)	\$ (941,330)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	451,246	430,135
Amortization of debt discount	34,193	26,281
Gain on settlement of accrued liabilities	—	(55,000)
Change in fair value of embedded derivative	(48,727)	2,922
Allowance for bad debts	—	11,100
Inventory allowance	10,741	117,453
Gain on sale of property and equipment	(50,000)	—
Changes in operating assets and liabilities:		
Accounts receivable	46,953	9,859
Prepaid expenses	5,576	22,720
Inventory	(56,500)	(43,644)
Security deposit	—	7,225
Deferred revenue	75,000	—
Due to related parties	(12,607)	161
Accounts payable and accrued liabilities	17,714	(110,590)
Net Cash Used In Operating Activities	(374,271)	(522,708)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash paid for minority investment in business	—	—
Purchase of archival images, property and equipment	(30,851)	(171,240)
Proceeds from sale of property and equipment	50,000	—
Net Cash Provided By (Used In) Investing Activities	19,149	(171,240)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable	375,000	346,500
Repayment of loans payable	(7,041)	(11,128)
Proceeds from notes payable	35,000	198,500
Repayment of note payable	(125,000)	—
Proceeds from note payable - related party	—	196,500
Repayment of note payable - related party	(15,049)	(14,960)
Advances from related party	127,475	—
Purchase of treasury stock	(88,000)	—
Net Cash Provided By Financing Activities	302,385	715,412
Net Change in Cash	(52,737)	21,464
Cash - Beginning of Period	54,034	32,570
Cash - End of Period	\$ 1,297	\$ 54,034
SUPPLEMENTARY CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest	\$ 16,882	\$ 17,770
SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common shares issued for settlement of accrued liabilities	\$ —	\$ 45,860

Note issued to settle related party payable	\$ —	\$ 14,000
Options issued for purchase of fixed assets	\$ 26,532	\$ —
Expenses paid on behalf of the company	\$ 21,000	\$ —

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

1. ORGANIZATION AND BUSINESS OPERATIONS

Capital Art, Inc. (formerly Movie Star News, LLC) (“we”, “our”, the “Company”) sells and manages classic and contemporary, limited edition photographic images and reproductions, with a focus on iconic celebrity images. The Company also makes available its images for publications and merchandizing. The Company aims to become a leading global photography marketing and distribution company by acquiring rights and ownership to collections of rare iconic negatives and photographs, and to establish worldwide wholesale and retail sales channels.

Movie Star News, LLC (“MSN”) was organized in the state of Nevada on August 29, 2012 as a limited liability company to acquire the assets of Kramer Productions, Inc. d/b/a Movie Star News, a New York institution since 1939 that was credited for creating the concept of “pin-up art”. The acquisition resulted in MSN holding one of the largest and most diverse collections of Hollywood photographs in the world of over 3 million Hollywood-related posters, vintage photographs and original negatives.

Capital Art, Inc. (“CAPA”), formed in the state of Delaware on April 26, 2007 along with its wholly owned subsidiary, Capital Art, LLC (collectively “CAPA” or “pre-merger CAPA”) formed in the state of California on January 24, 2011, owned rare iconic celebrity images, including the rights to the Frank Worth Collection. The Frank Worth Collection comprises an extensive collection of Marilyn Monroe, James Dean and other iconic photographs, many rare and never seen that were accumulated over a period of 60 years.

On July 22, 2015, the Company entered into an Asset Purchase Agreement with Globe Photos, Inc., a New York corporation, to purchase substantially all of the assets of Globe Photos, Inc., which principally comprise photographer contracts granting the Company the right to exploit copyrights, digital and tangible photographs, and related copyrights and trademarks, of Globe Photo, Inc. On July 24, 2015, the Company formed Globe Photo, LLC, a wholly owned subsidiary of CAPA, to license the Company’s extensive photograph image archive to third parties worldwide for a fee.

Going Concern

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

Management evaluated all relevant conditions and events that are reasonably known or reasonably knowable, in the aggregate, as of the date the consolidated financial statements are issued and determined that substantial doubt exists about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent on the Company’s ability to generate revenues and raise capital. The Company has not generated sufficient revenues from product sales to provide sufficient cash flows to enable the Company to finance its operations internally. As of December 31, 2017, the Company had \$1,297 cash on hand. At December 31, 2017 the Company has an accumulated deficit of \$3,522,655. For the twelve months ended December 31, 2017, the Company had a net loss of \$847,860 and cash used in operations of \$246,796. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

Over the next twelve months the Company intends to invest its working capital resources in sales and marketing in order to increase the distribution and demand for its products. If the Company fails to generate sufficient revenue and obtain additional capital to continue at its expected level of operations, the Company may be forced to scale back or discontinue its sales and marketing efforts. However, there is no guarantee the Company will generate sufficient revenues or raise capital to continue operations. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements represent the results of operations, financial position and cash flows of Capital Art, Inc. prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The consolidated financial statements include the financial statements of the Company, and its 100% owned subsidiaries Capital Art, LLC and Globe Photos, LLC. All inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company measures fair value in accordance with Accounting Standards Codification (“ASC”) 820 – Fair Value Measurements. ASC 820 defines fair value and establishes a three-level valuation hierarchy for disclosures of fair value measurements. ASC 820 establishes a framework for measuring fair value in generally accepted accounting principles, 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:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level 3 — Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Valuation of instruments includes unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

As defined by ASC 820, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale, which was further clarified as the price that would be received to sell an asset or paid to transfer a liability (“an exit price”) in an orderly transaction between market participants at the measurement date.

The reported fair values for financial instruments that use Level 2 and Level 3 inputs to determine fair value are based on a variety of factors and assumptions. Accordingly, certain fair values may not represent actual values of the Company’s financial instruments that could have been realized as of December 31, 2017 or that will be recognized in the future, and do not include expenses that could be incurred in an actual settlement. The carrying amounts of the Company’s financial assets and liabilities, such as cash, accounts receivable, receivables from related parties, prepaid expenses and other, accounts payable, accrued liabilities, and related party and third party notes payables approximate fair value due to their relatively short maturities. The Company’s notes payable to related parties approximates the fair value of such instrument based upon management’s best estimate of terms that would be available to the Company for similar financial arrangements at December 31, 2017 and 2016.

The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Derivative Financial Instruments	\$ —	\$ —	\$ 9,195	\$ 9,195

Financial assets and liabilities measured at fair value on a recurring basis are summarized below as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Derivative Financial Instruments	\$ —	\$ —	\$ 57,922	\$ 57,922

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of the derivative financial instruments, measured at fair value on a recurring basis using significant unobservable inputs:

	<u>Amount</u>
Balance December 31, 2016	\$ 57,922
Change in fair market value of derivative liability	(48,727)
Balance December 31, 2017	<u>\$ 9,195</u>

The Company's derivative instruments were valued using the Black-scholes option pricing model. Assumptions used in the valuation include the following: a) market value of stock on measurement date of \$0.19; b) risk-free rate of 1.53%; c) volatility factor of 285%; d) dividend yield of 0% and e) remaining term of 0.39 years.

Related parties

The Company follows ASC 850, "Related Party Disclosures" for reporting activities with related parties. A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

Accounts receivable, net

The Company sells its products through various means, including distributors, auction houses, and via the internet. The Company also licenses its images to third parties for which royalty income is received by the Company. The Company continually monitors the collectability of its trade accounts receivables based on a combination of factors, including the aging of the accounts receivable, historical experience, and other currently available evidence and provides for an allowance for doubtful accounts equal to estimated uncollectible amounts based on historical collection experience and a review of the current status of trade accounts receivable. There was an allowance for bad debt of \$0 and \$11,100 recorded during the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Company's accounts receivable was netted against an allowance of \$10,381 \$11,100, respectively.

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Inventory

The Company's inventory is comprised of rare photos of movie stars and other famous people, and is stated at the lower of cost or net realizable value. Direct labor and raw material costs associated with the process of making the photos available for sale are also included in inventory at cost. These costs are expensed to cost of sales pro-ratably as sold. As of December 31, 2017 and 2016, the Company has recorded allowance related to slow moving inventory in the amount of \$128,194 and \$117,453, respectively.

Archival Images, and Property and Equipment

Archival images, and property and equipment are recorded at cost for purchases over \$500, and depreciated using the straight-line method over the estimated useful lives ranging from three to ten years. The Company capitalizes direct costs associated with improvements to archival images, and property and equipment in accordance with ASC 360 – Property, Plant, and Equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of their useful life or the term of the related lease. Expenditures for ordinary repairs and maintenance are expensed as incurred.

Intangible Assets

Intangible assets, consisting of content provider and photographic agreements, and copyrights, are accounted for in accordance with ASC 350 Intangibles - Goodwill and Other. Intangible assets that have finite lives are amortized using the straight-line method over their estimated useful lives of ten years.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In such situations, long-lived assets are considered impaired when future undiscounted cash flows resulting the use of the asset and its eventual disposition are less than the asset's carrying amount. In such situations, the asset is written down to the present value of the estimated future cash flows. Factors that are considered when evaluating long-lived assets for impairment include a current expectation that it is more likely than not that the long-lived asset will be sold significantly before the end of its useful life, a significant decrease in the market price of the long-lived asset, and a change in the extent of manner in which the long-lived asset is being used. Based on management's assessment there were no impairments to its long-lived assets at December 31, 2017 and 2016.

Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with the provisions of ASC 815 - Derivatives Hedging: Embedded Derivatives. ASC 815 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities.

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms in agreements are reviewed to determine whether or not they contain embedded derivatives that are required under ASC 815 to be accounted for and separated from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities is required to be revalued at each reporting date, with the corresponding changes in fair value recorded in current period operating results.

Revenue Recognition

The Company recognizes revenue related to product sales when (i) the seller's price is substantially fixed, (ii) shipment has occurred causing the buyer to be obligated to pay for product, (iii) the buyer has economic substance apart from the seller, and (iv) there is no significant obligation for future performance to directly bring about the resale of the product by the buyer as required by ASC 605 – Revenue Recognition. Cost of sales, rebates and discounts are recorded at the time of revenue recognition or at each financial reporting date.

The Company's other revenue represent payments based on net sales from brand licensees for content reproduction rights. These license agreements are held in conjunction with third parties that are responsible for collecting fees due and remitting to the Company its share after expenses. Revenue from licensed products is recognized when realized or realizable based on royalty reporting received from licensees.

Shipping and Handling

The Company records shipping and handling expenses in the period in which they are incurred and are included in cost of revenues. In limited circumstances this cost is passed through to the customers.

Stock-based Compensation

The Company recognizes stock-based compensation issued to employees in accordance with ASC 718 – Compensation: Stock Compensation, based on the fair value of the equity instrument in exchange for employee services and the resulting recognition of compensation expense.

The Company's accounts for stock-based payment transactions with nonemployees for services in accordance with ASC 50-550 Equity: Equity-based Payments to Non-Employees. If the fair value of the services received in a stock-based payment with nonemployees is more reliably measureable than the fair value of the equity instrument issued, the fair value of the services received is used to measure the transaction. Conversely, if the fair value of the equity instruments issued in a stock-based transaction with nonemployees is more reliably measureable than the fair value of the consideration received, the transaction is measured at the fair value of the equity instruments issued. The Company recognizes an increase in equity or a liability, depending on whether the equity instruments granted have satisfied the equity or liability classification criteria.

Advertising

The Company expenses the cost of advertising, including promotional expenses, as incurred. Advertising expenses for the twelve months ended December 31, 2017 and 2016 was \$1,824 and \$5,167, respectively.

Income Taxes

The Company's calculation of its tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. The Company recognizes tax liabilities for uncertain tax positions based on management's estimate of whether it is more likely than not that additional taxes will be required. The Company had no uncertain tax positions as of December 31, 2017 and 2016.

Deferred income taxes are recognized in the consolidated financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from net operating losses, differences in depreciation methods of archived images, and property and equipment, stock-based and other compensation, and other accrued expenses. A valuation allowance is established when it is determined that it is more likely than not that some or all of the deferred tax assets will not be realized.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S., or the various state jurisdictions, may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities. Interest and penalties are included in tax expense.

The Company includes interest and penalties arising from the underpayment of income taxes in the statements of operation in the provision for income taxes. As of December 31, 2017 and 2016, the Company had no accrued interest or penalties related to uncertain tax positions.

Concentrations of Credit Risk and Financial Instruments

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable.

The Company's cash balances are placed at financial institutions, which at times, may exceed federally insured limits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash.

Basic and Diluted Loss per Share

The Company computes loss per share in accordance with ASC 260 - Earnings per Share. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the consolidated statements of operations. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. Diluted EPS excludes all dilutive potential shares if their effect is antidilutive. During periods of net loss, all common stock equivalents are excluded from the diluted EPS calculation because they are antidilutive. As of December 31, 2017, the Company has common stock equivalents related to options outstanding to acquire 100,000 shares of the Company's common stock and 2,283,333 shares reserved for future issuance (see Note 11).

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations and includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-08 is effective January 1, 2018 to be in alignment with the effective date of ASU 2014-09.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments in ASU 2016-10 clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. ASU 2016-10 is effective January 1, 2018 to be in alignment with the effective date of ASU 2014-09.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts from Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments in this update affect the guidance in ASU 2014-09, which is not yet effective. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2016-12 do not change the core principle of the guidance in Topic 606, but instead affect only the narrow aspects noted in Topic 606. ASU 2016-12 is effective January 1, 2018 to be in alignment with the effective date of ASU 2014-09. The Company will adopt the provisions of Topic 606 effective in January 1, 2018 and does not believe the adoption of the new revenue recognition standard will have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments including requirements to measure most equity investments at fair value with changes in fair value recognized in net income, to perform a qualitative assessment of equity investments without readily determinable fair values, and to separately present financial assets and liabilities by measurement category and by type of financial asset on the balance sheet or the accompanying notes to the financial statements. ASU 2016-01 will be effective for the Company beginning on January 1, 2018 and will be applied by means of a cumulative effect adjustment to the balance sheet, except for effects related to equity securities without readily determinable values, which will be applied prospectively. Management has reviewed this pronouncement and has determined that it would not have a material impact to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires an entity to recognize long-term lease arrangements as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all long-term leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The amendments also require certain new quantitative and qualitative disclosures regarding leasing arrangements. ASU 2016-02 will be effective for the Company beginning on January 1, 2019. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. Management does not believe the adoption of ASU 2016-02 will have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument would not, in and of itself, be considered a termination of the derivative instrument, provided that all other hedge accounting criteria continue to be met. ASU 2016-05 is effective for the Company beginning on January 1, 2017. Early adoption is permitted, including in an interim period. Management evaluated ASU 2016-05 and determined that the adoption of this new accounting standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*, which aims to reduce the diversity of practice in identifying embedded derivatives in debt instruments. ASU 2016-06 clarifies that the nature of an exercise contingency is not subject to the "clearly and closely" criteria for purposes of assessing whether the call or put option must be separated from the debt instrument and accounted for separately as a derivative. ASU 2016-06 is effective for the Company beginning on January 1, 2017. Management evaluated ASU 2016-06 and determined that the adoption of this new accounting standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 simplifies several aspects of the accounting and presentation of share-based payment transactions, including the accounting for related income taxes consequences and certain classifications within the statement of cash flows. ASU 2016-09 is effective for the Company beginning on January 1, 2017. Management evaluated the impact of adopting ASU 2016-09 and determined that the new accounting standard did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)", requiring that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017 with early adoption permitted. The provisions of this guidance are to be applied using a retrospective approach which requires application of the guidance for all periods presented. Management has reviewed this pronouncement and has determined that it would not have a material impact to the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting*. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. Management has reviewed this pronouncement and has determined that it would not have a material impact to the consolidated financial statements.

In July 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815)*. The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, *Debt—Debt with Conversion and Other Options*), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

3. GLOBE PHOTO ASSET PURCHASE AGREEMENT

On July 22, 2015, the Company entered into an Asset Purchase Agreement with Globe Photos, Inc. (“Globe”), a New York corporation, to purchase of substantially all of the assets of Globe, which principally comprises of photographer contracts granting the Company the right to exploit copyrights, digital and tangible photographs, and related copyrights and trademarks, of Globe Photo (Globe Photo Assets) for total purchase price of \$400,000 payable in \$250,000 cash and \$150,000 payable in the common stock of the Company.

Per the agreement, \$180,000 in cash was held in reserve by the Company against Globe’s full performance and compliance with all terms of the agreement. This amount is to be released to Globe at the rate of \$10,000 per month beginning August 22, 2015. As of December 31, 2017 and 2016, the total reserve payable to Globe Photos, Inc. is \$10,000 and \$10,000, respectively .

The Agreement called for the Common stock to be transferred to Globe sixty (60) days after closing subject to satisfaction of successful termination of certain subagent agreements by Globe. Globe retained these certain subagent agreements, but was not able to successfully terminate these agreements. As such, the amount payable in common stock of the Company was reduced by \$30,000, thereby reducing the total purchase price of the assets acquired from \$400,000 to \$370,000. Under the terms of the Agreement the Company issued 352,941 shares of its common stock based on the closing price of the Company’s common shares as traded on the OTC market on the measurement date July 22, 2015 of \$0.34 per share for a total of \$120,000.

The Company evaluated the Asset Purchase Agreement in accordance with ASC 805 – Business Combinations which notes the threshold requirements of a business combination that includes the expanded definition of a “business” and defines elements that are to be present to be determined whether an acquisition of a business occurred. No “activities” of Globe were acquired. Instead, the Company obtained control of a set of inputs (the acquired assets). Thus the Company determined agreement is an acquisition of assets, not an acquisition of a business in accordance with ASC 805. The total purchase price of \$370,000 in connection with the assets acquired is included in archival images, and property and equipment, net, in the consolidated balance sheets.

As a form of liquidity protection, Globe shall have limited put options in connection with the common stock beginning eighteen (18) months after the closing date, whereas the Company shall have up to fifteen (15) successive monthly options, with no less than thirty (30) days notice for each, which requires the Company to repurchase from Globe up to 1/15th of the shares of common stock in Globe’s possession that were granted in connection with the agreement, at a price per share equity to the market price per share (\$0.34) on the effective date of the original share transfer to Globe. The exercise of any put option is not conditioned upon exercise of any prior put option. Beginning in January 2017, Globe exercised its option and elected to sell 1/15th of the shares of common stock for \$8,000 per month. As of December 31, 2017, the Company has repurchased 258,823 shares from Globe for cash payments of \$88,000.

In accordance with ASC 815 – Derivatives and Hedging: Embedded Derivatives, the Company determined the put options are an embedded derivative subject to bifurcation. The put options are a hybrid instrument that are not legally detachable or a mandatorily redeemable financial instrument. If exercised by Globe Photos, the put options embody an unconditional obligation by the Company to buy back its shares for cash at \$0.34 per share, the market value of the Company’s common shares on the original transfer date of August 22, 2015. Globe may exercise this right beginning January 22, 2017 up to fifteen months subsequent that date. Using the Black-Scholes Valuation Model, the Company determined the fair value of the embedded derivative on August 22, 2015, the date of transfer of the common stock to Globe, to be \$75,000. The Company’s stock price on August 22, 2015 was \$0.34, risk-free discount rate of 1.01% and volatility of 100% was used to obtain fair value. See also Note 2.

Management determined the assets acquired from Globe for net purchase price of \$370,000 and \$75,000 related to the embedded derivative, for a total of \$445,000. Based on its analysis of industry historical values of archival celebrity images and licensing and experience in the industry, Management’s allocation of the assets acquired in connection with the Globe APA is assigned as follows:

Inventory	\$ 10,000
Intangible assets – content provider and photographic agreements	400,000
Copyrights	<u>35,000</u>
Total fair value of purchased assets	<u>\$ 445,000</u>

In accordance with ASC 350 – Intangibles – Goodwill and Other, the Company determined the content provider and photographic agreements and copyrights acquired from Globe have finite useful lives with estimated useful life of 10 years.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment as of December 31, 2017 and 2016 comprise of the following:

	December 31,		Estimated Useful Lives
	2017	2016	
Frank Worth Collection	\$ 2,770,000	\$ 2,770,000	10 years
Other archival images	939,343	889,331	10 years
Leasehold improvements	12,446	12,446	7 years
Computer and other equipment	72,687	65,316	3 – 5 years
Furniture and fixtures	83,666	83,666	7 years
	<u>3,878,142</u>	<u>3,820,759</u>	
Less accumulated depreciation	<u>(1,384,918)</u>	<u>(977,172)</u>	
Total property and equipment, net	<u>\$ 2,493,224</u>	<u>\$ 2,843,587</u>	

Depreciation expense for the years ended December 31, 2017 and 2016 was \$407,746 and \$386,635, respectively. During the year ended December 31, 2017, the Company recognized a gain on the sale of certain assets amounting to \$50,000.

5. FRANK WORTH COLLECTION

On November 12, 2014, the Frank Worth Estate agreed to accept \$155,000 and 200,000 common shares, with a fair value of \$0.05 per share (\$10,000), of the Company's common stock in exchange for sole and exclusive, world-wide, royalty free rights to all negatives, prints, products and other materials the Company possesses including the use of the Frank Worth seal, Frank Worth's name, likeness, publications and biography plus merchandising and selling rights. \$30,000 due under the agreement for royalties was paid in January 2015. The remainder of 125,000 and 200,000 (\$10,000) shares of common stock were due and payable on or before May 31, 2015, which was held by the Company until a dispute with the executor of the Estate (the "Claimant") is settled.

On October 18, 2016, an arbitration hearing was held on this matter. On October 28, 2016, the arbitrator issued an amended award, finding the 2011 Agreement to remain valid, but also recognizing the Company's demand for clean title to the 38 Key images. Thus, the Company was ordered to pay Claimant \$70,000 as final payment due under the November 12, 2014 agreement, payable to the Claimant no later than February 23, 2017. The Company was granted an award for delivery of clean title of the 38 Key images no later than February 23, 2017. In the event, Claimant provides such clean title by such deadline, the parties have the option to comply with the 2011 agreement and enter into negotiations for a new royalty agreement on the 38 Key images. But in the event Claimant does not deliver clean title, the Company shall retain possession of the entire collection, including the 38 Key images with no further obligation to pay royalties. The Claimant failed to deliver clean title by February 23, 2017.

As of December 31, 2017 and 2016, \$10,000 and \$80,000, respectively, has been provided for in accrued liabilities in the Company's consolidated balance sheets

6. INTANGIBLE ASSETS, NET

	December 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net book value	Gross Carrying Amount	Accumulated Amortization	Net book value
Intangible assets with determinable lives:						
Content provider and photographic agreements	\$ 400,000	\$ 100,000	\$ 300,000	\$ 400,000	\$ 60,000	\$ 340,000
Copyrights	35,000	8,750	26,250	35,000	5,250	29,750
Total	<u>\$ 435,000</u>	<u>\$ 108,750</u>	<u>\$ 326,250</u>	<u>\$ 435,000</u>	<u>\$ 65,250</u>	<u>\$ 369,750</u>

Amortization expense in connection with the photographic agreements and copyrights for the twelve months ended December 31, 2017 and 2016 was \$43,500 and \$43,500, respectively and is included in depreciation and amortization expense in the consolidated statements of operations. Estimated amortization expense over the next five years is \$43,500 per year.

7. NOTES PAYABLE

On September 28, 2015, the Company entered into a promissory note agreement for working capital purposes with an unrelated party for total proceeds of \$150,000. The note matured on September 28, 2016. Effective September 28, 2016, the note was extended to March 31, 2017 and is secured by approximately 240,000 vintage photographs. Interest accrues at the rate of 10% per annum and is payable monthly beginning October 28, 2015. Accrued interest payable due under the note agreement was \$15,154 and \$11,404 at December 31, 2017 and 2016, respectively. The note was further extended to July 31, 2017 and then to December 31, 2017. Effective March 30, 2018, the note was extended to June 30, 2018.

In December 2015, the Company entered into a secured promissory note agreement with an unrelated party for working capital purposes for total proceeds of \$120,000. The note bears interest at the rate of 10% per annum, and is payable on the 1st day of each month commencing in February 2016. On February 15, 2016, the Company entered into an additional promissory note agreement with the same unrelated party for additional proceeds of \$62,500 and under the same terms as the first note. During the year ended December 31, 2017, the Company made total payments of \$20,000. As of December 31, 2017 and 2016, the balance of \$162,500 and \$182,500 remains outstanding. Both notes are secured by certain inventory and archival images of the Company in the amount of up to \$200,000. Accrued interest payable due under the unsecured note agreement was \$34,412 and \$12,665 as of December 31, 2017 and 2016, respectively. The notes matured on December 31, 2017; however, on January 22, 2018, the outstanding balance on the notes was purchased by a related party. See Note 14.

In April 2016, the Company entered into two unsecured promissory note agreements with unrelated parties for working capital purposes for total proceeds of \$75,000. The promissory notes matured in December 2017 and on March 30, 2018 was extended through June 30, 2018 and bear interest at the rate of 6% per annum. Accrued interest payable due under the unsecured note agreement was \$7,858 and \$3,358 as of December 31, 2017 and 2016, respectively.

On April 7, 2016, an unrelated party advanced the Company \$75,000 plus an original issue discount of \$25,000 for the purchase of a Marilyn Monroe archive. The advance is secured by the archive for which it was used and is to be repaid on or before April 7, 2017. As of May 3, 2017, the note was extended to December 31, 2017 and as of March 28, 2018, was further extended to June 30, 2018. The Company has agreed to pay 50% of the proceeds derived from the Marilyn Monroe archives up to a guaranteed total of \$100,000. Once the \$100,000 is paid, the Company has no further obligations. The Company made principal payments of \$80,000 in 2017. As of December 31, 2017 and 2016, the balance of \$20,000 and \$100,000 remains outstanding, respectively. As of December 31, 2017 and 2016, \$25,000 and \$11,835 of the discount has been amortized. The note is shown net of the unamortized portion of the discount of \$0 and \$13,165 as of December 31, 2017 and 2016. The interest expense accrued on the notes was \$0 as of December 31, 2017 and 2016.

On February 24, 2017, the Company entered into a short-term unsecured note with an unrelated party for working capital purposes for total proceeds of \$25,000. During the year ended December 31, 2017, the Company repaid \$27,000, including \$2,000 in interest expense. As of December 31, 2017, the note has been paid in full.

On December 20, 2017, the Company entered into a short-term unsecured note with an unrelated party for working capital purposes for total proceeds of \$10,000. As of December 31, 2017, \$10,000 of the note was still outstanding.

The Company evaluated the modification of the notes resulting from the extensions in maturity dates under ASC 470-50 and determined that the modifications were not considered substantial and would not qualify for extinguishment accounting under such guidance.

8. NOTES PAYABLE TO RELATED PARTIES

On August 1, 2013 the Company entered into an unsecured promissory note agreement with a related party Dino Satallante for \$100,000. The loan bears interest at the rate of 5% per annum. The Company made principal payments of \$15,049 in 2017. As of December 31, 2017, and 2016, \$61,135 and \$76,184 was outstanding under the unsecured promissory note agreement, respectively. Interest expense for the years ended December 31, 2017 and 2016 was \$3,057 and \$3,809, respectively. The loan matured on July 14, 2014 and was extended to July 31, 2016 and then to December 31, 2017. Effective March 30, 2018, the note was further extended to June 30, 2018.

Effective September 11, 2014 the Company entered into two separate unsecured promissory note agreements for \$20,500 each with two related parties, Dreamstar an entity owned and controlled by Sam Battistone, a Company officer and director and a principal shareholder, and Dino Satallante, a beneficial interest shareholders of the Company, for working capital purposes. The loans bear interest at the rate of 6% per annum. The loans matured on September 10, 2015 and have been extended to June 30, 2018. At December 31, 2017 and 2016, \$20,500 and \$18,100 was outstanding to Dino Satallante and Dreamstar, respectively. Accrued interest expense in connection with the two unsecured promissory note agreements for the years ended December 31, 2017 and 2016 was \$5,584 and \$3,171, respectively.

Effective July 21, 2015, the Company entered into a promissory note agreement with a related party Dino Satallante, a beneficial interest shareholder of the Company, for total proceeds of \$160,000. The Company utilized \$80,000 of the proceeds for payments due in connection with the Globe Photo assets acquired. The remainder of the proceeds were used for working capital purposes. The note matured on July 20, 2016, with monthly interest only payments commencing July 22, 2015. Interest accrues at the rate of 12% per annum. The note is

secured by the Globe Photo Assets. Total interest expense in connection with the secured promissory note agreement for the years ended December 31, 2017 and 2016 is \$19,200 and \$19,200. Per the terms of the agreement the Company incurred loan fees totaling \$8,000 to be amortized over the term of the loan. For the years ended December 31, 2017 and 2016, amortization expense in connection with the loan fees totaled \$0 and \$4,424, respectively. The note was initially extended to July 20, 2017 and then to December 31, 2017. As of March 30, 2018, the note has been extended through June 30, 2018. The note is being shown net of unamortized loan fees of \$0 as of December 31, 2017.

On April 4, 2016 the Company entered into a secured promissory note agreement with Premier Collectibles, a beneficial interest shareholder for total proceeds of \$65,000 to be used for acquisition of archive agreement. The promissory note bears interest at the rate of 8% per annum, is secured by the archive collection which the proceeds were used and matured on April 1, 2017. The note was extended to July 31, 2017 and is outstanding as of December 31, 2017. On March 30, 2018, the note was extended to June 30, 2018. Accrued interest expense on the note was \$9,075 and \$3,875 for the years ended December 31, 2017 and 2016, respectively.

On April 15, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of \$50,000. The promissory note bears interest at the rate of 6% per annum and matured on December 15, 2017. On January 22, 2018, the outstanding balance on the notes was purchased by a related party. See Note 14. Accrued interest was \$5,145 and \$2,145 for the years ended December 31, 2017 and 2016, respectively.

On October 3, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of \$50,000. The promissory note bears interest at the rate of 6% per annum and matured on December 31, 2017. On January 22, 2018, the outstanding balance on the notes was purchased by a related party. See Note 14. Accrued interest was \$3,740 and \$740 for the years ended December 31, 2017 and 2016, respectively.

On December 2, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of \$31,500. The promissory note bears interest at the rate of 6% per annum and matured on December 31, 2017. On January 22, 2018, the outstanding balance on the notes was purchased by a related party. See Note 14. Accrued interest was \$2,045 and \$155 for the year ended December 31, 2017 and 2016, respectively.

The Company evaluated the modification of the notes resulting from the extensions in maturity dates under ASC 470-50 and determined that the modifications were not considered substantial and would not qualify for extinguishment accounting under such guidance.

9. RELATED PARTY TRANSACTIONS

Due From/To Related Parties

The following table summarizes amounts due to the Company from related parties related to contractual agreements and amounts due to related parties for expenses paid for on the behalf of the Company as of December 31, 2017 and 2016. The amounts due are non-interest bearing and due upon demand. These amounts have been included in the consolidated balance sheets as current assets due from related parties and current liabilities due to related parties, respectively.

	December 31,	
	2017	2016
<u>Due from related parties:</u>		
Klaus Moeller, related party of pre-merger CAPA and beneficial interest shareholder	\$ —	\$ 78,920
Total due from related parties	\$ —	\$ 78,920
Less long-term portion	—	—
Total due from related parties, net of long-term portion	\$ —	\$ 78,920
<u>Due to related parties:</u>		
ICONZ Art, LLC, beneficial interest shareholder	\$ 119,081	\$ 4,213
MSN Holding Co., beneficial interest shareholder	12,947	12,947
Premier Collectibles, beneficial interest shareholder	15,085	15,085
Total due to related parties	\$ 147,113	\$ 32,245

During the year ended December 31, 2017, the Company received advances totaling \$127,475 from a related party which are non-interest bearing and due on demand.

10. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue up to 50,000,000 shares of preferred stock authorized with a par value of \$0.0001. The Board of Directors is authorized, subject to any limitations prescribed by law, without further vote or action by the Company's stockholders, to issue from time to time shares of preferred stock in one or more series. Each series of preferred stock will have such number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, and conversion rights. As of December 31, 2017 and 2016, there were no shares of Preferred Stock issued and outstanding.

Stock-based and Other Compensation to Non-Employees

In November 2014, the Company entered into a fixed price agreement with a consultant for website development services for total contract price of \$193,000 payable in cash of \$40,000 and 510,000 shares of the Company's common stock with a stated fair value of \$0.30 per share. As of December 31, 2015, 170,000 shares of common stock with fair value of \$51,000 were issued. 340,000 shares of common stock were unissued for \$102,000 which is included in accrued liabilities in the Company's consolidated balance sheets. As of December 31, 2015, 170,000 shares of these common shares had been issued. On October 1, 2016, the Company issued 229,300 shares of common stock valued at \$45,860 as progress payment towards the fixed price agreement.

Shares Reserved

The Company is required to reserve and keep available of its authorized, but unissued shares of common stock an amount sufficient to effect shares due in connection with the Stock Purchase Agreement and Stock-Based Compensation to Non-Employees. As of December 31, 2017 and 2016, shares reserved for future issuance comprised of the following:

Shares to be issued to consultants	2,083,333
Shares to be issued to Frank Worth Estate	200,000
	<u>2,283,333</u>

These shares were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive due to the net loss for the years ended December 31, 2017 and 2016.

STOCK OPTIONS

On January 11, 2017, the Company granted 100,000, 3 year stock options with exercise prices of \$0.10 valued at \$26,532 for archival assets. The options were valued using the Black-scholes option pricing model. Assumptions used in the valuation include the following: a) market value of stock on measurement date of \$0.19; b) risk-free rate of 1.53%; c) volatility factor of 285%; d) dividend yield of 0%

The following is a summary of stock option activity during the year ended December 31, 2017.

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2016	—	\$ —
Options granted and assumed	100,000	\$ 0.10
Options expired	—	—
Options canceled	—	—
Options exercised	—	—
Balance, December 31, 2017	<u>100,000</u>	<u>\$ 0.10</u>

11. COMMITMENTS AND CONTINGENCIES

Proceeds from Auctions of Royalty Rights

On March 8, 2016, the Company entered into a Listing Agreement with Royalty Network, LLC, doing business as Royalty Exchange for auction of a 50% ownership of photographic copyrights of certain celebrity archival images owned by the Company. In addition, the sale also assigns the winning bidder the right to receive 50% of the future share of income derived from the assigned images.

During 2016, the Company received gross proceeds of \$396,000, less 12.5% auction broker fee, from five separate auctions of these rights. The Company retains all exclusive licensing authority over the images and may exercise a buyback option to buy back the 50% ownership of the rights for two times the original auction proceeds over a period ranging from 1 to 2 years.

The Company accounted for the 50% profit consideration for the above agreement in accordance with ASC 470-10-25 and 470-10-35 which requires amounts recorded as debt to be amortized under the interest method as described in ASC 835-30, Interest Method. The Company determined an effective interest rate based on future expected cash flows to be paid to the loan holders. This rate represents the discount rate that equates estimated cash flows with the initial proceeds received from the loan holders and is used to compute the amount of interest to be recognized each period. Estimating the future cash outflows under this agreement requires the Company to make certain estimates and assumptions about future revenues and such estimates are subject to significant variability. Therefore, the estimates are likely to change which may result in future adjustments to the accretion of the interest expense and the amortized cost based carrying value of the related loans.

Accordingly, the Company has estimated the cash flows associated with the images and determined a discount of \$151,316 which is being accounted as interest expense over a 10-year estimated life of the asset based on expected future revenue streams. For the years ended December 31, 2017 and 2016, interest expense related to these loans amounted to \$21,028 and \$14,446, respectively, which has been included in interest expense and a corresponding increase in loans payable. During the years ended December 31, 2017 and 2016, the Company made payments of \$7,041 and \$11,128 to the loan holders, respectively. As of December 31, 2017, loan payable net of unamortized debt discount amounted \$363,805.

Asset purchase agreement

On March 3, 2017, the Company entered into an agreement to sell 20% of its ownership in a certain photographic archive asset for \$200,000. As part of the agreement the buyer received preferential distributions of their entire purchase price of the asset. If however the entire purchase price is not paid back after 24 months then all net revenues from the Company will be paid to the buyer until the full purchase price has been paid.

On July 21, 2017, the Company entered into an agreement to sell 25% of its ownership in a certain photographic archive asset for \$175,000. As part of the agreement the buyer received preferential distributions of their entire purchase price of the asset plus a 30% return. If however the entire purchase price is not paid back after 24 months then all net revenues from the Company will be paid to the buyer until the full purchase price plus a 30% return has been paid.

The Company accounted for the above transaction as debt and recognized the amount received as a loan payable. As of December 31, 2017, other debt, net of unamortized debt discount amounted to \$375,000.

License Agreements

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Effective June 1, 2016 the Company entered into three separate non-exclusive license agreements use of licensed images and trademarks through December 31, 2019. Under the terms of the agreements, the Company is required to pay royalties of 10% on net sales. The agreements call for combined annual guaranteed minimum royalties per year of \$150,000 based on combined minimum sales of \$1,500,000 per year. The Company was required to pay advances related to 50% of the first year's royalties totaling \$75,000 upon execution of the agreements. The remainder of the first year's combined minimum royalties of \$75,000 was paid during the year ended December 31, 2017.

Operating Lease Agreements

On September 6, 2012 the Company entered into a 25-month operating lease agreement for approximately 4,606 square foot warehouse and office facilities located in Las Vegas, NV. Monthly base rent due under the agreement is \$3,270, plus common area maintenance fees. The agreement calls for 3% annual increase in base rental payments. On October 10, 2014, the Company entered into a First Amendment to Lease agreement extending the lease term for 60-months, beginning November 1, 2014. All other terms of the agreement remain unchanged.

As of December 31, 2017, future minimum payments due under the 60-month operating lease agreement are as follows:

2018	\$	43,096
2019	\$	36,807
<u>Total future minimum payments</u>	<u>\$</u>	<u>79,903</u>

The Company leases various corporate housing from unrelated third parties for terms that range from month-to-month to one year. The Company also rents office space on a month-to-month basis in New York at rate of \$850 per month.

Total rent expense for the twelve months ended December 31, 2017 and 2016 was \$54,076 and \$53,320 respectively, in connection with the operating lease agreements.

12. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes as of December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Deferred tax assets:		
Net operating loss	\$ 766,000	\$ 952,000
Provisions and accrued liabilities	29,000	44,000
	<u>795,000</u>	<u>996,000</u>
Deferred tax liabilities:		
Total deferred tax asset	795,000	996,000
Less valuation allowance	(795,000)	(996,000)
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2017 and 2016, the Company had gross federal net operating loss carryforwards of approximately \$3,646,000 and \$2,891,000, respectively. The Company expects the limitation placed on the federal net operating loss carryforwards prior to the ownership change will likely expire unused. As of December 31, 2017, all tax years are open for examination by the taxing authorities.

Due to the enactment of the Tax Reform Act of 2017, the corporate tax rate for those tax years beginning with 2018 has been reduced to 21%.

13. SUBSEQUENT EVENTS

On January 22, 2018, Iconz, LLC ("Iconz"), a related party, purchased and assumed certain notes payable dated December 31, 2015, February 16, 2016, April 5, 2016, April 15, 2016, October 3, 2016, and December 2, 2016 with principal balances totaling \$343,500. On March 30, 2018, Iconz agreed to extend the maturity date of all these notes to June 30, 2018.

On April 8, 2018, the Company issued a 15% promissory note in the amount of \$150,000. The note is due upon the receipt of additional financing by the Company.

Subsequent to year end, the Company granted 15,283,333, 10 year stock options with exercise prices ranging from \$0.01 to \$0.05 to various consultants for services.

Subsequent to year end the Company repurchased 94,118 shares of common stock for \$32,000 in accordance with the asset purchase agreement disclosed in Note 3. A total of 305,882 shares were subsequently cancelled by the Company.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

On August 4, 2017, Eide Bailly LLP (the “Former Accountant”) resigned as our independent registered public accounting firm and we engaged Malone Bailey LLP (the “New Accountant”) as our independent registered public accounting firm. The engagement of the New Accountant was approved by our Board of Directors.

We filed a Form 8-K on August 7, 2017 with the Securities and Exchange Commission regarding the change in independent accounting firm.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report, being December 31, 2017. This evaluation was carried out under the supervision of, and with the participation of, our management, including our Chief Executive Officer and Chief Financial Officer.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company’s reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, we have concluded that our disclosure controls and procedures are not effective as of the end of the period covered by this annual report due to the material weaknesses indicated below. We intend to implement additional procedures to improve disclosure controls.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2017, our internal control over financial reporting was not effective. Our management identified the following material weaknesses in our internal control over financial reporting, which are indicative of many small companies with limited personnel:

- ineffective control environment and lack of qualified full-time CFO who has SEC experience to focus on our financial affairs;
- lack of qualified and sufficient personnel, and processes to adequately and timely identify making any and all required public disclosures;
- deficiencies in the period-end reporting process and accounting policies;
- inadequate internal controls over the application of new accounting principles or the application of existing accounting principles to new transactions;
- inadequate internal controls relating to the authorization, recognition, capture, and review of transactions, facts, circumstances, and events that could have a material impact on the Company’s financial reporting process;
- inadequate controls over maintenance of records
- inadequate internal controls with respect to inventory transactions; and
- improper and lack of timely accounting for accounts such as prepaid expenses, accounts payable, accrued liabilities and revenue.

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Our Board of Directors has assigned a priority to the short-term and long-term improvement of our internal control over financial reporting. We intend to retain a qualified Chief Financial Officer in 2018 to remedy the processes that would eliminate the issues that may arise due to the absence of separation of duties within the financial reporting functions. Additionally, our Board of Directors will work with management to continuously review controls and procedures to identified deficiencies and implement remediation within our internal controls over financial reporting and our disclosure controls and procedures.

We believe that our financial statements presented in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations, and cash flows for all periods presented herein.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following information sets forth the names, ages, and positions of our current directors and executive officers.

Name	Age	Positions and Offices Held
Sam D. Battistone	78	Chairman of the Board, Co-Chief Executive Officer and Director
Stuart Scheinman	52	President, Co-Chief Executive Officer, Director
Scott C. Black	65	Secretary, Treasurer, In-House Counsel and Director

Set forth below is a brief description of the background and business experience of each of our current executive officers and directors.

Sam D. Battistone was appointed as our Co-CEO and Chairman of our Board of Directors in December 2016. In addition to his positions with our Company, since 1998 Mr. Battistone has been the owner and President of Dreamstar, Inc., Las Vegas, NV, a privately held company engaged in business investments related to the sports industry. He was the Founder, Chairman and a director of Dreams, Inc. a publicly held company located in Plantation, FL from 1982 through 2012. Mr. Battistone received an AA degree in 1959 from the City College of San Francisco. He devotes approximately 75% of his time to our affairs.

Aside from that provided above, Mr. Battistone does not hold and has not held over the past five years any other directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Mr. Battistone is qualified to serve on our Board of Directors because of his sales, marketing and business development experience.

Stuart Scheinman was appointed as our Co-CEO, President and a Director in December 2016. Since September 2012 he has also been President of Movie Star News, Inc., Las Vegas, NV, a privately held company engaged in sale of classic and vintage Hollywood photographs. We acquired this company in October 2014. Prior to that Mr. Scheinman was president and founder of Animaland, an interactive toy manufacturing company from December 2003 to September 2012. Mr. Scheinman received a Bachelor of Arts degree from Long Island University in 1987. He devotes approximately 100% of his time to our affairs.

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Aside from that provided above, Mr. Scheinman does not hold and has not held over the past five years any other directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Mr. Schienman is qualified to serve on our Board of Directors because of his sales, marketing and business development experience.

Scott C. Black, Lieutenant General US Army (Ret.), was appointed as our Secretary, Treasurer, in-house counsel and a director in December 2016. He has worked with us since 2013. From November 2009 through August 2012 he was Vice President and General Manager of BAE Systems, Inc., where he supervised and managed the Global Mission Solutions business unit, a \$300M+ annual revenue organization. He joined BAE Systems after retiring from the U.S. Army where he had a distinguished 35-year career of service, rising to serve as the Army's Judge Advocate General. As the Judge Advocate General of the U.S. Army, Mr. Black directed a legal services organization of more than 10,000 lawyers and paralegals, including both soldiers and civilians deployed around the world in 650 offices in 19 countries, including Iraq and Afghanistan. He served as the legal advisor to the Secretary of the Army, the Army Chief of Staff, and all Army Staff principals, and was responsible for all Military Justice operations, the legal support for contracting, ethics, and environmental programs, and for supervising the training and deployment of Rule of Law and Governance Advisors around the world. Previously, he served as Commanding General and Commandant of the Judge Advocate General's Legal Center and School in Charlottesville, Virginia, and as the Assistant Judge Advocate General for Military Law and Operations in the Pentagon. His past positions include Chief Counsel for the Secretary of the Army's Congressional Liaison Office, Staff Judge Advocate (General Counsel) for the Army's Fifth Corps in Germany, and Assistant Counsel to the President in the White House. Mr. Black received a bachelor's degree in political science from California Polytechnic State University in 1974 and a Juris Doctor from the California Western School of Law in 1980. He also holds a Master's Degree in National Resource Strategy from the Industrial College of the Armed Forces, National Defense University. His awards include the Distinguished Service Medal, the Legion of Merit with Oak Leaf Cluster, and the Meritorious Service Medal with four Oak Leaf Clusters. He is also entitled to wear the Parachutist Badge, the Ranger Tab, and the Army Staff Identification Badge. He devotes approximately 75% of his time to our affairs.

Aside from that provided above, Mr. Black does not hold and has not held over the past five years any other directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Mr. Black is qualified to serve on our Board of Directors because of his sales, marketing and business development experience.

Term of Office

Our Directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board, subject to their respective employment agreements.

Significant Employees

We have no significant employees other than Tucker Diedwardo. Mr. Diedwardo is 70 years of age, and brings our company over 25 years of business experience. From 2013 to the present, he runs his own company called TD Ventures, which is a special event and entertainment marketing company. From 2005 to 2013, he was President of LVI Global LLC, a company involved in postgraduate live-patient dental education. Mr. DiEdwardo holds Bachelors of Science and Masters of Science degrees from Southern Connecticut State University.

Family Relationships

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There are no family relationships between or among the directors, executive officers, significant employee or persons nominated or chosen by us to become directors or executive officers.

Involvement in Certain Legal Proceedings

During the past 10 years, none of our current directors, nominees for directors or current executive officers has been involved in any legal proceeding identified in Item 401(f) of Regulation S-K, including:

1. Any petition under the Federal bankruptcy laws or any state insolvency law filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any partnership in which he or she was a general partner at or within two years before the time of such filing, or any corporation or business association of which he or she was an executive officer at or within two years before the time of such filing;
2. Any conviction in a criminal proceeding or being named a subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him or her from, or otherwise limiting, the following activities:
 - i. Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;
 - ii. Engaging in any type of business practice; or
 - iii. Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;
4. Being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any type of business regulated by the Commodity Futures Trading Commission, securities, investment, insurance or banking activities, or to be associated with persons engaged in any such activity;
5. Being found by a court of competent jurisdiction in a civil action or by the SEC to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated;
6. Being found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;
7. Being subject to, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:
 - i. Any Federal or State securities or commodities law or regulation; or

ii. Any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or

iii. Any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

8. Being subject to, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Director Independence

Our Board is currently composed of three members. Our Common Stock is not currently listed for trading on a national securities exchange and, as such, we are not subject to any director independence standards. No member of our Board of Directors is considered an independent director. We evaluated independence in accordance with the rules of The New York Stock Exchange, Inc., which generally provides that a director is not independent if: (i) the director is, or in the past three years has been, an employee of ours; (ii) a member of the director's immediate family is, or in the past three years has been, an executive officer of ours; (iii) the director or a member of the director's immediate family has received more than \$120,000 per year in direct compensation from us other than for service as a director (or for a family member, as a non-executive employee); (iv) the director or a member of the director's immediate family is, or in the past three years has been, employed in a professional capacity by our independent public accountants, or has worked for such firm in any capacity on our audit; (v) the director or a member of the director's immediate family is, or in the past three years has been, employed as an executive officer of a company where one of our executive officers serves on the compensation committee; or (vi) the director or a member of the director's immediate family is an executive officer of a company that makes payments to, or receives payments from, us in an amount which, in any twelve-month period during the past three years, exceeds the greater of \$1,000,000 or 2% of that other company's consolidated gross revenues.

Committees of the Board

As of the date of this report we do not have any committees of our Board of Directors. We expect to form an Audit Committee, a Compensation Committee, a Corporate Governance Committee, and a Nominating Committee in the near future. Thus, there is a potential conflict of interest in that our directors have the authority to determine issues concerning management compensation, in essence their own, and audit issues that may affect management decisions. We are not aware of any other conflicts of interest with any of our executives or directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent beneficial shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To the best of our knowledge based solely on a review of Forms 3, 4, and 5 (and any amendments thereof) received by us during or with respect to the year ended December 31, 2017, the following persons have failed to file, on a timely basis, the identified reports required by Section 16(a) of the Exchange Act during fiscal year ended December 31, 2017:

Name and principal position	Number of late reports	Transactions not timely reported	Known failures to file a required form
Scott C. Black	0	0	0
Stuart Scheinman	0	0	0
Sam Battistone	0	0	0
Sean Goodchild	0	1	0
Dino Satallante	1	0	0

Code of Ethics

As of December 31, 2017, we had not adopted a Code of Ethics. We felt, until recently, the small number of individuals comprising our board and management did not warrant the adoption of a Code of Ethics. Now that we have expanded our board and our increasing the size of our organization, we intend to adopt a Code of Ethics in the near future.

Item 11. Executive Compensation

The table below summarizes all compensation awarded to, earned by, or paid to our former or current executive officers for the fiscal years ended December 31, 2017 and 2016.

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$) (1)	Total (\$)
Stuart Scheinman <i>Co-CEO and Director</i>	2017	91,000	-	-	-	-	91,000
	2016	78,500	-	-	-	-	78,500
Sam Battistone <i>Co-CEO and Director</i>	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-
Scott Black <i>Secretary, Treasurer and Director</i>	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-
Sean Goodchild <i>Former President</i>	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-
David Morton <i>Former CFO</i>	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-

Outstanding Equity Awards at Fiscal Year-End

Our officers and directors do not have unexercised options, stock that has not vested, or equity awards. There were no outstanding equity awards to our named executive officers as of December 31, 2017.

Director Compensation

Our directors did not receive any compensation during the years ended December 31, 2017 and 2016, in consideration for their services rendered in their capacity as directors and no arrangements are presently in place regarding compensation to directors for their services as directors or for committee participation or special assignments.

We do not believe risks arising from our compensation policies and practices for our employees are reasonably likely to have a material adverse effect upon us

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related

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The following table sets forth, as of April 30, 2018, certain information as to shares of our voting stock owned by (i) each person known by us to beneficially own more than 5% of our outstanding voting stock, (ii) each of our directors, and (iii) all of our executive officers and directors as a group.

Unless otherwise indicated below, to our knowledge, all persons listed below have sole voting and investment power with respect to their shares of voting stock, except to the extent authority is shared by spouses under applicable law. Unless otherwise indicated below, each entity or person listed below maintains an address of 6445 South Tenaya Way, B-130 Las Vegas, Nevada 89113.

The number of shares beneficially owned by each stockholder is determined under rules promulgated by the SEC. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting or investment power and any shares as to which the individual or entity has the right to acquire beneficial ownership within 60 days through the exercise of any stock option, warrant or other right. The inclusion in the following table of those shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner.

Title of class	Name and address of beneficial owner	Amount of beneficial ownership(1)	Percent of class(2)
Common	Sam Battistone(3)(4)	70,247,410	21.6%
Common	Stuart Scheinman(3)(5)	71,149,408	21.8%
Common	Scott Black	—	—
	Total all executive officers and directors (3 persons)	141,396,818	43.4%
	Other 5% Shareholders		
	Dino Satallante(3)(6)	71,149,408	21.8%
	Sean Goodchild(3)(7)	23,771,500	7.3%

- (1) Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares that power with that person's spouse) with respect to all shares of voting stock listed as owned by that person or entity.
- (2) Pursuant to Rules 13d-3 and 13d-5 of the Exchange Act, beneficial ownership includes any shares as to which a shareholder has sole or shared voting power or investment power, and also any shares which the shareholder has the right to acquire within 60 days, including upon exercise of common shares purchase options or warrants. The percent of class is based on 325,218,584 voting shares as of April 30, 2018.
- (3) These shares are held under the name Movie Star News LLC, which owns an aggregate of 220,238,226 shares of our Common Stock. Mr. Battistone and Mr. Scheinman each own 33.3% of that company. As such, they have the voting and dispositive power over these shares. Mr. Satallante owns the remaining 33.3% and has the voting and dispositive power over those shares.
- (4) As reported by Mr. Battistone on his Form 4 filed with the SEC on April 27, 2018.
- (5) As reported by Mr. Scheinman on his Form 4 filed with the SEC on April 27, 2018.
- (6) As reported by Mr. Satallante on his Form 4 filed with the SEC on April 27, 2018.
- (7) Includes 21,271,500 shares held in his name, and 2,500,000 held by a relative in the same household.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Other than described below or the transactions described under the heading "Executive Compensation" (or with respect to which such information is omitted in accordance with SEC regulations), there have not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a participant in which the amount involved exceeded or will exceed the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years, and in which any director, executive officer, holder of 5% or more of any class of our capital stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

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Effective July 21, 2015, the Company entered into a promissory note agreement with a related party Dino Satallante, a beneficial interest shareholder of the Company, for total proceeds of \$160,000. The Company utilized \$80,000 of the proceeds for payments due in connection with the Globe Photo assets acquired. The remainder of the proceeds were used for working capital purposes. The note matures on July 20, 2016, with monthly interest only payments commencing July 22, 2015. Interest accrues at the rate of 12% per annum. The note is secured by the Globe Photo Assets. Total interest expense in connection with the secured promissory note agreement for the years ended December 31, 2017 and 2016 is \$19,200 and \$19,200. Per the terms of the agreement the Company incurred loan fees totaling \$8,000 to be amortized over the term of the loan. For the years ended December 31, 2017 and 2016, amortization expense in connection with the loan fees totaled \$0 and \$4,424, respectively. As of March 30, 2018, the note has been extended through June 30, 2018. The note is being shown net of unamortized loan fees of \$0 as of December 31, 2017.

On August 1, 2013 the Company entered into an unsecured promissory note agreement with a related party Dino Satallante for \$100,000. The loan bears interest at the rate of 5% per annum. The Company made principal payments of \$15,049 in 2017. As of December 31, 2017, and 2016, \$61,135 and \$76,184 was outstanding under the unsecured promissory note agreement, respectively. Interest expense for the years ended December 31, 2017 and 2016 was \$3,057 and \$3,809, respectively. The loan matured on July 14, 2014 and was extended to July 31, 2016 and then to December 31, 2017. Effective March 30, 2018, the note was further extended to June 30, 2018.

Effective September 11, 2014 the Company entered into two separate unsecured promissory note agreements for \$20,500 each with two related parties, Dreamstar an entity owned and controlled by Sam Battistone, a Company officer and director and a principal shareholder, and Dino Satallante, a beneficial interest shareholders of the Company, for working capital purposes. The loans bear interest at the rate of 6% per annum. The loans matured on September 10, 2015 and have been extended to June 30, 2018. At December 31, 2017 and 2016, \$20,500 and \$18,100 was outstanding to Dino Satallante and Dreamstar, respectively. Accrued interest expense in connection with the two unsecured promissory note agreements for the years ended December 31, 2017 and 2016 was \$5,584 and \$3,171, respectively.

On April 4, 2016 the Company entered into a secured promissory note agreement with Premier Collectibles, a beneficial interest shareholder for total proceeds of \$65,000 to be used for acquisition of archive agreement. The promissory note bears interest at the rate of 8% per annum, is secured by the archive collection which the proceeds were used and matured on April 1, 2017. The note was extended to July 31, 2017 and is outstanding as of December 31, 2017. On March 30, 2018, the note was extended to June 30, 2018. Accrued interest expense on the note was \$9,075 and \$3,875 for the years ended December 31, 2017 and 2016, respectively.

On April 15, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of \$50,000. The promissory note bears interest at the rate of 6% per annum and matured on December 15, 2017. On January 22, 2018, the outstanding balance on the notes was purchased by a related party. See Note 14. Accrued interest was \$5,145 and \$2,145 for the years ended December 31, 2017 and 2016, respectively.

On October 3, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of \$50,000. The promissory note bears interest at the rate of 6% per annum and matured on December 31, 2017. On January 22, 2018, the outstanding balance on the notes was purchased by a related party. See Note 14. Accrued interest was \$3,740 and \$740 for the years ended December 31, 2017 and 2016, respectively.

On December 2, 2016, the Company entered into an unsecured promissory note agreement with Sean Goodchild, a beneficial interest shareholder, for total proceeds of \$31,500. The promissory note bears interest at the rate of 6% per annum and matured on December 31, 2017. On January 22, 2018, the outstanding balance on the notes was purchased by a related party. See Note 14. Accrued interest was \$2,045 and \$155 for the year ended December 31, 2017 and 2016, respectively.

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On January 22, 2018, Iconz, LLC (“Iconz”), a related party, purchased and assumed certain notes payable dated December 31, 2015, February 16, 2016, April 5, 2016, April 15, 2016, October 3, 2016, and December 2, 2016 with principal balances totaling to \$343,500. On March 30, 2018, Iconz agreed to extend the maturity date of all these notes to June 30, 2018.

As of December 31, 2017 and 2016, interest payable in connection with the unsecured promissory note agreements with related parties was \$55,609 and \$21,579, respectively, and is included in accrued liabilities in the Company’s consolidated balance sheets.

Item 14. Principal Accounting Fees and Services

Below is the table of Audit Fees (amounts in US\$) billed by our auditor in connection with the audit of the Company’s annual financial statements and review of the quarterly financial statements for the years ended:

Financial Statements for the Year Ended December 31	Audit Services	Audit Related Fees	Tax Fees	Other Fees
2016	\$ 74,730	\$ 0	\$ 0	0
2017	\$ 43,444	\$ 0	\$ 0	0

PART IV

Item 15. Exhibits, Financial Statements Schedules

(a) *Financial Statements and Schedules*

The following financial statements and schedules listed below are included in this Form 10-K.
Financial Statements (See Item 8)

(b) *Exhibits*

Exhibit

Number Description

3.1	Certificate of Incorporation ¹
3.2	Certificate of Amendment December 2, 2004 ¹
3.3	Certificate of Amendment February 8, 2005 ¹
3.4	Certificate of Amendment April 30, 2007 ¹
3.5	Certificate of Amendment December 7, 2009 ¹
3.6	Certificate of Amendment April 26, 2011 ¹
3.7	Bylaws ¹
10.1	Membership Interest Purchase Agreement ¹
10.2	Promissory Note ¹
10.3	Amendment to Promissory Note ¹
10.4	Amendment to Promissory Note ¹
10.5	Memorandum of Understanding ¹
10.6	Photograph Reproduction and Marketing Rights Agreement ¹
10.7	Purchase Agreement ¹
10.8	Deed of Variation ¹
10.9	Securities Purchase Agreement ¹
10.10	Form of Debenture ¹
10.11	Asset Purchase Agreement ¹
10.12	Asset Purchase Agreement ²
21.1	List of Subsidiaries ¹
31.1	** Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	** Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley

[Act of 2002](#)

32.1**[Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101** The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2017 formatted in Extensible Business Reporting Language (XBRL).

¹ Incorporated by reference to the Form 10-12G, filed by the Company with the Securities and Exchange Commission on February 10, 2015.

² Incorporated by reference to the Form 10-Q, filed by the Company with the Securities and Exchange Commission on November 16, 2015.

**Provided herewith

SIGNATURES

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

Capital Art, Inc.

By: /s/ Stuart Scheinman
Stuart Scheinman
Chief Executive Officer, Principal Executive Officer
May 2, 2018

By: /s/ Scott C. Black
Scott C. Black
Title: Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer
Date: May 2, 2018

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

By: /s/ Stuart Scheinman
Stuart Scheinman
Title: Director
Date: May 2, 2018

By: /s/ Sam Battistone
Sam Battistone
Title: Director
Date: May 2, 2018

By: /s/ Scott C. Black
Scott C. Black
Title: Director
Date: May 2, 2018