DEBT RESOLVE INC
Form 10-Q/A
December 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

AMENDMENT NO. 1

(Mark One)

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

For the quarterly period ended MARCH 31, 2016

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

For the Transition Period from __________ to ___________

Commission File No.: **1-33110**

DEBT RESOLVE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0889197**
	(I.R.S. Employer Identification No.)

(State or other jurisdiction of incorporation or organization)

1133 Westchester Ave., Suite S-223

White Plains, New York	**10604**
(Address of principal executive offices)	(Zip Code)

(914) 949-5500

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

As of May 23, 2016, 104,612,082 shares of the issuer's Common Stock were outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this "Amendment") amends the Quarterly Report of Debt Resolve, Inc. (the "Company") on Form 10-Q for the three months ended March 31, 2016, as filed with the Securities and Exchange Commission on May 23, 2016 (the "Original Filing"). This Amendment is being filed for the purpose of restating the Company's balance sheet to correct an accounting error in the classification of accounts receivable, as described in Note 15 to the financial statements. We have not updated the information contained herein for events occurring subsequent to May 23, 2016, the filing date of the Original Filing.

The following Items have been amended as a result of this restatement:

- Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part II, Item 6, Exhibits and Financial Statement Schedules

During the preparation of its financial statements for the quarter ended September 30, 2016, the Company identified errors in the presentation of its accounts receivable reported as of March 31, 2016. Based on the Company's reassessment of relevant accounting guidelines, it has corrected the error and characterized a portion of accounts receivable as a long term asset, rather than a current asset. The effect of these adjustments is a reclassification of $2,999,966 of reported accounts receivable as a long term asset. There was no change to any other asset or liability accounts. There was no effect on the Statements of Stockholders' Deficiency, Operations or Cash Flows.

The following tables show the principal financial statement line items originally reported and restatement adjustments as of March 31, 2016:

	As Reported	Adjustments	As Restated
Accounts receivable, current	$ 4,138,956	$ (2,999,966)	$ 1,138,990
Accounts receivable, long term	-	2,999,966	2,999,966

The above accounts receivable is reported, net of an allowance for doubtful accounts of $1,028,474.

In connection with the restatement, the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2016 and the related disclosures will be restated on Form 10-Q/A for those respective periods.

DEBT RESOLVE, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DEBT RESOLVE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

		March 31, 2016 (unaudited) (restated)		December 31, 2015
ASSETS				
Current assets:				
Cash	$	14,249	$	30,480
Accounts receivable, net		1,138,990		954,588
Prepaid expenses		36,848		36,893
Total current assets		1,190,087		1,021,961
Long term assets:				
Accounts receivable, net		2,999,966		2,508,573
Total assets	$	4,190,053	$	3,530,534
LIABILITIES AND STOCKHOLDERS' DEFICIENCY				
Current liabilities:				
Accounts payable and accrued liabilities	$	3,699,209	$	3,480,580
Due to shareholders		275,306		242,741
Deferred revenue		1,148,361		1,260,137
Due to factor		3,462,532		2,442,935
Notes payable, current portion		643,545		536,132
Notes payable-related party, net of unamortized discount of $5,249 and $6,105 as of March 31, 2016 and December 31, 2015, respectively		860,472		789,616
Convertible Short-term notes, net of deferred debt discount of $28,042 and $23,410 as of March 31, 2016 and December 31, 2015, respectively		2,284,958		2,034,590
Lines of credit, related parties		532,336		548,893
Derivative liabilities		21,021		-
Total current liabilities		12,927,740		11,335,624
Long term debt:				
Notes payable, related party, net of unamortized debt discount of $-0- and $3,450 as of March 31, 2016 and December 31, 2015, respectively		70,000		136,550
Notes payable		35,696		-
Convertible long-term notes, net of deferred debt discount of $66,586 and $73,244 as of March 31, 2016 and December 31, 2015, respectively		105,414		251,756
Total liabilities		13,138,850		11,723,930
Stockholders' deficiency:				
Preferred stock, $0.001 par value; 10,000,000 shares authorized				

Series A Convertible Preferred stock, $0.001 par value; 5,000,000 shares designated; -0- shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	-	-
Common stock, $0.001 par value, 500,000,000 shares authorized; 104,612,082 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	104,612	104,612
Additional paid in capital	66,970,501	66,916,656
Accumulated deficit	(75,431,410)	(74,807,693)
Stockholders' deficiency attributable to Debt Resolve, Inc.	(8,356,297)	(7,786,425)
Non-controlling interest	(592,500)	(406,971)
Total stockholders' deficiency	(8,948,797)	(8,193,396)
Total liabilities and stockholders' deficiency	$ 4,190,053	$ 3,530,534

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

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DEBT RESOLVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended March 31, 2016	2015
Revenues:	$ 657,644	$ 470,093
Costs and expenses:		
Payroll, payroll taxes, penalties and related expenses	314,654	338,204
Selling and marketing expenses	124,500	358,800
General and administrative expenses	741,548	389,807
Total costs and expenses	1,180,702	1,086,811
Loss from operations	(523,058)	(616,718)
Other income (expense):		
Gain on change in fair value of derivative liabilities	(4,240)	73,299
Interest expense	(251,709)	(107,576)
Amortization of debt discounts	(30,239)	(19,572)
Total other income (expense)	(286,188)	(53,849)
Net loss before provision for income taxes	(809,246)	(670,567)
Income tax (benefit)	-	-
Net loss	(809,246)	(670,567)
Net loss attributable to non-controlling interest	185,529	156,958
NET LOSS ATTRIBUTABLE TO DEBT RESOLVE, INC.	$ (623,717)	$ (513,609)
Net loss per common share -basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding, basic and diluted	104,612,082	98,187,082

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

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DEBT RESOLVE, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY
THREE MONTHS ENDED MARCH 31, 2016

	Common stock				Additional Paid In		Accumulated		Non-controlling		
	Shares		Amount		Capital		Deficit		Interest		Total
Balance, December 31, 2015	104,612,082	$	104,612	$	66,916,656	$	(74,807,693)	$	(406,971)	$	(8,193,396)
Beneficial conversion feature related to convertible notes	-		-		7,124		-		-		7,124
Fair value of common stock warrants issued for services	-		-		1,860		-		-		1,860
Fair value of vesting options issued to employees for services	-		-		4,861		-		-		4,861
Stock based compensation	-		-		40,000		-		-		40,000
Net loss	-		-		-		(623,717)		(185,529)		(809,246)
Balance, March 31, 2016	104,612,082	$	104,612	$	66,970,501	$	(75,431,410)	$	(592,500)	$	(8,948,797)

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

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DEBT RESOLVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (809,246)	$ (670,567)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discounts	30,239	19,573
Bad debts	216,086	-
Stock based compensation	46,721	7,376
Change in fair value of derivative liability	4,240	(73,299)
Changes in operating assets and liabilities:		
Accounts receivable	236,820	(297,623)
Prepaid expenses	45	11,241
Security deposit	-	-
Accounts payable and accrued liabilities	248,627	122,395
Deferred revenue	(111,776)	299,733
Net cash used in operating activities	(138,244)	(581,171)
CASH FLOWS FROM INVESTING ACTIVITIES:	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from shareholders	32,565	(3,422)
Net repayments from factor	(109,104)	-
Net proceeds from convertible notes	72,000	275,000
Net repayments from line of credit	(16,557)	(18,750)
Proceeds from notes payable	143,109	415,000
Net cash provided by financing activities	122,013	667,828
Net (decrease) increase in cash and cash equivalents	(16,231)	86,657
Cash at beginning of period	30,480	55,605
Cash at end of period	$ 14,249	$ 142,262
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	$ 6,849	$ 3,412
Cash paid during period for taxes	$ -	$ -
Non-cash financing and investing transactions:		
Convertible note issued for settlement of accounts payable	$ 30,000	$ -
Reclassification on non-recourse financing agreement to a full recourse agreement	$ 1,128,701	$ 0
Beneficial conversion feature on convertible notes	$ 7,124	$ 26,928

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

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DEBT RESOLVE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2016

NOTE 1 – BASIS AND BUSINESS PRESENTATION

Debt Resolve, Inc. (the "Company") was incorporated under the laws of the State of Delaware on April 21, 1997. The Company offers its service as a Software-as-a-Service (SaaS) model, enabling clients to introduce this collection or payment software option with no modifications to their existing collections computer systems. Its products capitalize on using the Internet as a tool for communication, resolution, settlement and payment of delinquent or defaulted consumer debt and as part of a complete accounts receivable management solution for consumer creditors.

In December 2014, the Company, jointly with LSH, LLC, organized Progress Advocates LLC, a Delaware limited liability company for the purpose to provide services in the student loan document preparation industry with ownership interests of 51% and 49% for the Company and LSH, LLC, respectively.

The Company operates as one operating segment.

Basis of Presentation

These unaudited condensed financial statements have been prepared in accordance with the instructions to the Form 10-Q and Article 10 of Regulation S-X, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ended December 31, 2016. The unaudited condensed financial statements should be read in conjunction with the consolidated December 31, 2015 financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC").

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiary. All significant inter-company transactions and balances have been eliminated in consolidation. The non-controlling interest represents the minority owners' share of its net operating results.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the presentation of the accompanying unaudited condensed financial statements follows:

Revenue Recognition

In recognition of the principles expressed in Accounting Standards Codification subtopic 605-10, Revenue should not be recognized until it is realized or realizable and earned, and given the element of doubt associated with collectability of an agreed settlement on past due debt, the Company postpones recognition of all contingent revenue until the client receives payment from the debtor. As is required by SAB 104, revenues are considered to have been earned when the Company has substantially accomplished the agreed-upon deliverables to be entitled to payment by the client. For most current active clients, these deliverables consist of the successful collection of past due debts using the Company's system and/or, for clients under a flat fee arrangement, the successful availability of the Company's system to its customers.

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DEBT RESOLVE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2016

Revenues for the preparation of student loan documentation are earned when the Company has substantially accomplished the agreed-upon deliverables to be entitled to payment by the client. For most current active clients, these deliverables consist of the completed, delivered and accepted student loan package. The Company may sell its products separately or in various bundles that include multiple elements such as initial fees, monitoring and other services.

The Company also earns revenue from collection agencies, collection law firms and lenders that implemented our online system. The Company's current contracts provide for revenue based on a percentage of the amount of debt collected, a fee per settlement or through a flat monthly fee. Although other revenue models have been proposed, most revenue earned to date has been determined using these methods, and such revenue is recognized when the settlement amount of debt is collected by the client or at the beginning of the month for a flat fee. While the percent of debt collected will continue to be a revenue recognition method going forward, other payment models are also being offered to clients. Dependent upon the structure of future contracts, revenue may be derived from a combination of set up fees or flat monthly or annual fees with transaction fees upon debt settlement, fees per account loaded or fees per settlement. The Company is currently marketing its system to three primary markets. The first and second are financial institutions and collection agencies or law firms, its traditional markets. The Company is also expanding into healthcare, particularly hospitals, which is its third market.

Revenues for set-up fees, percentage contingent collection fees, fixed settlement fees, monthly fees, etc. are accounted for as Multiple-Element Arrangements under ASC 605-10 which incorporates Accounting Standards Codification subtopic 605-25, Multiple-Element Arrangements ("ASC 605-25"). ASC 605-25 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets.

The Company defers any revenue for which the product or service has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At March 31, 2016 and December 31, 2015, the Company had deferred revenues of $1,148,361 and $1,260,137, respectively

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, revenues and expenses and certain disclosures. The most significant estimates are those used in determination of the carrying value of accounts receivable, revenue recognition, derivative liabilities and stock compensation. Accordingly, actual results could differ from those estimates.

Concentrations and Credit Risk

The Company extends credit to large, mid-size and small companies for the use of its software solutions along with customers in the student loan industry. At March 31, 2016 and December 31, 2015, the Company did not have an accounts receivable concentration and no sales concentrations for the three months ended March 31, 2016 and 2015.

Net Loss per Common Share, basic and diluted

The Company computes earnings (loss) per share under Accounting Standards Codification subtopic 260-10, Earnings Per Share ("ASC 260-10"). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable.

The computation of basic and diluted income (loss) per share as of March 31, 2016 and 2015 excludes potentially dilutive securities when their inclusion would be anti-dilutive, or if their exercise prices were greater than the average market price of the common stock during the period.

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DEBT RESOLVE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2016

Potentially dilutive securities excluded from the computation of basic and diluted net loss per share are as follows:

	March 31, 2016	March 31, 2015
Convertible notes payable	45,095,000	39,655,000
Preferred stock	-	5,950,000
Options to purchase common stock	17,592,434	16,172,434
Warrants to purchase common stock	72,400,000	88,796,636
Warrants to purchase Series A preferred stock	25,245,000	19,690,000
Totals	160,332,434	170,264,070

Reclassification

Certain reclassifications have been made to prior period's data to conform to the current period's presentation. These reclassifications had no effect on reported income or losses.

Stock-based compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by the Company in the same expense classifications in the statements of operations, as if such amounts were paid in cash. As of March 31, 2016, there were outstanding stock options to purchase 17,592,434 shares of common stock, 14,592,434 shares of which were vested.

Defined Contribution (401k) Plan

The Company maintains a defined contribution (401k) plan for our employees. The plan provides for a company match in the amount of 100% of the first 3% of pre-tax salary contributed and 50% of the next 3% of pre-tax salary contributed. Due to the severe cash limitations that the

Company has experienced, the match was suspended from mid-2008 to the present and will only be re-instated when business conditions warrant.

Derivative Liability

The Company accounts for derivatives in accordance with ASC 815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged. At March 31, 2016 and December 31, 2015, the Company did not have any derivative instruments that were designated as hedges. See Note 10 for discussion of the Company's derivative liabilities.

Recent accounting pronouncements

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to a have a material impact on the Company's financial position, results of operations or cash flows.

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DEBT RESOLVE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2016

NOTE 3 – LIQUIDITY

The accompanying unaudited condensed financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited condensed financial statements, the Company incurred a net loss of $623,717 for the three months ended March 31, 2016. Additionally, the Company has negative working capital (total current liabilities exceeded total current assets) of $11,737,653 as of March 31, 2016. These factors among others raise substantial doubt about the Company's ability to continue as a going concern.

The Company has undertaken further steps as part of a plan to improve operations with the goal of sustaining our operations for the next twelve months and beyond to address its lack of liquidity by raising additional funds, either in the form of debt or equity or some combination thereof. However, there can be no assurance that the Company can successfully accomplish these steps and or business plans, and it is uncertain that the Company will achieve a profitable level of operations and be able to obtain additional financing.

The Company's continued existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. There can be no assurance that any additional financings will be available to the Company on satisfactory terms and conditions, if at all. In the event that the Company is unable to continue as a going concern, it may elect or be required to seek protection from its creditors by filing a voluntary petition in bankruptcy or may be subject to an involuntary petition in bankruptcy.

The accompanying unaudited condensed financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

NOTE 4 – ACCOUNTS RECEIVABLE AND DUE TO FACTOR

Accounts receivable are receivables generated from sales to customers and progress billings on performance type contracts. Amounts included in accounts receivable are deemed to be collectible within the Company's operating cycle. Management provides an allowance for doubtful accounts based on the Company's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have been exhausted and the prospects for recovery are remote. As of March 31, 2016 and December 31, 2015, the

Company's accounts receivable was $5,167,430 and $4,063,161, net of allowance for doubtful accounts of $1,028,474 and $600,000, respectively.

The Company's majority owned subsidiary, Progress Advocates LLC entered into a factoring agreement which had certain provisions that factor advances were based on either a non-recourse and recourse basis. During the first quarter of 2016, the Company agreed to modify the terms of the factoring agreement whereby the outstanding advances which were originally based upon a non-recourse basis will be reclassified to a full recourse advances. Accordingly, the Company reclassified the outstanding advances of $1,128,701 to a full recourse liability to the factor, increased the carrying value of accounts receivable by $1,128,701, net of an allowance for doubtful accounts of $212,388.

The recourse agreement provides for the Company to receive an advance of between 30% - 96% of any accounts receivable that it factors with 62% - 0% held in reserve. The average amount received from these recourse agreements was 50.9% and the average amount reserved was 42.1%. The factoring agreement also provides for discount fees of 4% - 8% of the face value of any accounts receivable factored, plus additional charges for other transaction fees. The agreement may be terminated by either party at any time and will continue unless either party formally cancels. As of March 31, 2016 and December 31, 2015, the Company's outstanding obligation under the factoring agreement was $3,462,532 and $2,442,935, respectively.

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DEBT RESOLVE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2016

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of March 31, 2016 and December 31, 2015 are comprised of the following:

		March 31, 2016		December 31, 2015
Accounts payable	$	699,297	$	740,881
Accrued interest		2,032,782		1,912,436
Payroll and related accruals, net of advance to employees		967,130		827,263
Total	$	3,699,209	$	3,480,580

NOTE 6 – NOTES PAYABLE

As of March 31, 2016 and December 31, 2015, short term notes are as follows:

		March 31, 2016		December 31, 2015
Note payable, dated June 1, 2015		41,667		45,765
Note payable, dated July 2, 2015		12,500		12,500
Note payable, dated August 28, 2015		32,967		50,000
Note payable, dated December 17, 2015		50,000		50,000
Note payable, dated January 13, 2016		50,000		-
Note payable, dated February 16, 2016		25,000		-
Equitable promissory note, dated March 1, 2016		89,240		-
Investor notes payable, 12% per annum		377,867		377,867
Total		679,241		536,132
Less current portion		643,545		536,132
Long term portion	$	35,696	$	-0-

On January 13, 2016, the Company issued an unsecured note payable for $50,000 due January 1, 2017 with interest at 12% per annum, paid monthly beginning May 2016 and principal payments beginning November 2016. The outstanding balance as of March 31, 2016 is $50,000.

On February 16, 2016, the Company issued an unsecured note payable for $25,000 due February 1, 2017 with interest at 12% per annum, paid monthly beginning June 2016 and principal payments beginning December 2016. The outstanding balance as of March 31, 2016 is $25,000.

On March 1, 2016. The Company issued a promissory note payable for $89,240, with interest at 6% per annum, with monthly payments beginning April 15, 2016 in the amount no less than of 5% of the principal balance remaining due until the amount due plus all accrued interest is paid in full.

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DEBT RESOLVE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2016

NOTE 7 – NOTES PAYABLE, RELATED PARTIES

As of March 31, 2016 and December 31, 2015, notes payable, related parties are as follows:

	March 31, 2016	December 31, 2015
Convertible note payable dated July 22, 2010, in default	$ 15,000	$ 15,000
Note payable dated January 14, 2011, in default	6,000	6,000
Note payable dated April 14, 2011, in default	25,000	25,000
Note payable dated April 15, 2011, in default	25,000	25,000
Note payable dated January 18, 2012, in default	5,000	5,000
Note payable dated January 20, 2012, in default	5,000	5,000
Note payable dated May 21, 2012, in default	15,000	15,000
Note payable dated May 30, 2012, in default	20,000	20,000
Series A Convertible note, in default	20,000	20,000
Convertible notes payable, dated July 6, 2012, in default	30,000	30,000
Convertible note payable, dated July 10, 2012, in default	15,000	15,000
Note payable, dated September 14, 2012, in default	6,000	6,000
Convertible note payable, dated September 7, 2012, in default	43,000	43,000
Convertible note payable, dated October 4, 2012, in default	50,000	50,000
Convertible note payable, dated September 5, 2013, in default	10,000	10,000
Convertible note payable, dated September 16, 2013, in default	3,000	3,000
Note payable dated September 17, 2013, in default	5,221	5,221
Note payable, dated October 24, 2013	30,000	30,000
Note payable, dated November 7, 2013	40,000	40,000
Note payable. dated December 6, 2013	5,000	5,000
Note payable, dated December 18, 2013	30,000	30,000
Note payable, dated January 9, 2014, in default	25,000	25,000
Convertible note payable, dated February 28, 2014, net of unamortized debt discount of $-0- and $2,064, respectively, in default	200,000	197,936
Convertible note payable, dated April 24, 2014, net of unamortized debt discount of $162 and $775, respectively	24,838	24,225
Convertible note payable, dated November 7, 2014, net of unamortized debt discount of $1,228 and $1,733, respectively	23,772	23,267
Convertible notes payable, dated December 4, 2014, net of unamortized debt discount of $1,121 and $1,532, respectively	48,879	48,468
Note payable, dated January 25, 2015	25,000	25,000
Convertible note payable, dated March 3, 2015, net of unamortized debt discount of $2,126 and $2,701, respectively	47,874	47,299

Convertible note payable, dated May 12, 2015, net of unamortized debt discount of $612 and $750, respectively		19,388		19,250
Note payable, dated June 18, 2015		25,000		25,000
Note payable, dated July 13, 2015		12,500		12,500
Note payable, dated August 5, 2015, in default		25,000		25,000
Note payable, dated August 19, 2015, in default		50,000		50,000
Total		930,472		926,166
Less current portion		(860,472)		(789,616)
Long term portion	$	70,000	$	136,550

For the three months ended March 31, 2016 and 2015, the Company amortized $4,306 and $4,839 of debt discount to current period operations as interest expense.

Total unpaid accrued interest on the notes payable to related parties as of March 31, 2016 and December 31, 2015 was $258,460 and $233,856, respectively. During the three months ended March 31, 2016 and 2015, the Company recorded interest expense of $23,239 and $23,239, respectively, in connection with the notes payable to related parties.

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DEBT RESOLVE, INC.

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NOTE 8 – LINE OF CREDIT- RELATED PARTY

On January 25, 2015, the Company issued an unsecured promissory note to certain members of the Company's board of directors who provided the Company a line of credit up to $400,000 for working capital over a term of four years with an annualized interest rate of 5.25%. The promissory note is due 30 days upon written demand however, the Company is obligated to make monthly payments of principal and interest necessary to meet the minimal monthly principal and interest payments required by the bank on loans the lenders obtained to provide the financing. As of March 31, 2016 and December 31, 2015, the outstanding balance on this loan was $381,336 and 397,893, respectively.

On September 24, 2009, the Company entered into an unsecured short term loan with a stockholder for $150,000 to be used to discharge the bridge loans of another investor. Borrowings under the loan bear interest at 12% per annum, with interest accrued and payable on maturity. The Note was due on November 24, 2009 and is still outstanding. In conjunction with this line of credit, the Company also issued a warrant to purchase 150,000 shares of common stock at an exercise price of $0.15 per share with an expiration date of September 24, 2014. On April 6, 2010, a partial repayment of $25,000 of principal was paid. Also, as a result of the delinquent repayment of the note, a penalty of $69,000 was incurred on April 15, 2010. On August 17, 2010, a partial payment of $50,000 of principal was made on the line of credit. Unpaid accrued interest on this loan as of March 31, 2016 and December 31, 2015 was $123,757 and $119,239, respectively.

As of March 31, 2016 and December 31, 2015, the outstanding balance on this loan was $151,000. Since the loan matured on November 24, 2009, it is currently in default. During the three months ended March 31, 2016 and 2015, the Company recorded $4,518 and $4,468, respectively, as interest expense.

NOTE 9 – CONVERTIBLE NOTES

Convertible notes of non-related party investors are comprised of the following:

	March 31, 2016	December 31, 2015
Series A Convertible Notes	$ 817,000	$ 817,000
Series B Convertible Notes	225,000	225,000

Series C Convertible Notes	245,000	245,000
Series D Convertible Notes	21,000	21,000
Bridge 2014 Convertible Notes, net of unamortized debt discount of $11,082 and $23,410, respectively	738,918	726,590
Bridge 2015 Convertible Notes, net of unamortized debt discount of $61,917 and $73,244, respectively	263,083	251,756
Bridge 2016 Convertible Notes, net of unamortized debt discount of $15,011	56,989	-
Convertible promissory notes, net of unamortized debt discount of $6,618	23,382	-
Total	2,390,372	2,286,346
Less: Current portion	(2,284,958)	(2,034,590)
Long term portion	$ 105,414	$ 251,756

In 2016, the Company issued an aggregate of $72,000 in secured convertible notes that mature two years from the date of issuance (from January 2018 through February 2018). The notes bear interest at a rate of 10% and can be convertible into shares of the Company's common stock, at a conversion rate of $0.05 per share. Interest will also be converted into common stock at the conversion rate of $0.05 per share. In connection with the issuance of the convertible notes, the Company issued an aggregate of 250,000 warrants to purchase the Company's common stock at $0.15 per share over three years.

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In 2016, the Company issued an aggregate of $30,000 in unsecured convertible notes that mature one year from the date of issuance (from February 2017 through March 2017) for services rendered. The notes bear interest at a rate of 10% and can be convertible into shares of the Company's common stock, at a rate of $0.05 per share. Interest will also be converted into common stock at the conversion rate of $0.05 per share. In addition, if the Company issues any of its common stock or any security convertible into its common stock at an exercise or conversion price lower than the stated conversion price, then the stated conversion price is reduced to the lower conversion price.

Until February 1, 2016 and in accordance with ASC 470-20, the Company recognized the value attributable to the warrants and the conversion feature in the amount of $7,124 to additional paid in capital and a discount against the notes. The Company valued the warrants in accordance with ASC 470-20 using the Black-Scholes pricing model and the following assumptions: contractual terms of 3 years, an average risk free interest rate of 1.25%, a dividend yield of 0%, and volatility of 356.55%. The debt discount attributed to the value of the warrants and conversion feature issued is amortized over the note's maturity period (two years) as interest expense.

After February 1, 2016, the Company has identified the embedded derivatives related to the notes issued after January 31, 2016. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date of the Notes and to fair value as of each subsequent reporting date.

At inception of the post January 2016 notes, the Company determined the aggregate fair value of $16,781 of embedded derivatives. The fair value of the embedded derivatives was determined using the Black-Scholes Pricing Model based on the following assumptions: (1) dividend yield of 0%; (2) expected volatility from 333.74% to 348.27%, (3) weighted average risk-free interest rate from of 0.47% to 0.76%, (4) expected life from 1 to 2 years, and (5) estimated fair value of the Company's common stock of $0.01 to $0.02 per share. The determined fair value of the debt derivatives of $16,781 was charged as a debt discount of the note.

Based upon ASC 840-15-25 (EITF Issue 00-19, paragraph 11) the Company has adopted a sequencing approach regarding the application of ASC 815-40 to its outstanding convertible notes. Pursuant to the sequencing approach, the Company evaluates its contracts based upon earliest issuance date.

For the three months ended March 31, 2016 and 2015, the Company amortized $25,931 and $14,734 of debt discount to current period operations as interest expense.

Certain convertible note holders, representing an aggregate of $1,079,500 of these notes, entered into agreements in December 2014 through March 2015 whereby their obligations were extended for a period of 18 months from the date of execution of the agreement. The terms of the agreement included a payment of accrued interest of $500 for every $25,000 of outstanding principal. All other terms (including any amendments or earlier extensions) of the notes remain the same. The remaining convertible notes are in default.

NOTE 10 – DERIVATIVE LIABILITIES

As described in Note 9, the Company has identified the embedded derivatives related to the notes issued after January 31, 2016. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date of the Notes and to fair value as of each subsequent reporting date.

The Company recognizes its derivative liabilities as level 3 and values its derivatives using the methods discussed below. While the Company believes that its valuation methods are appropriate and consistent with other market participants, it recognizes that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The primary assumptions that would significantly affect the fair values using the methods discussed are that of volatility and market price of the underlying common stock of the Company.

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At March 31, 2016, the fair value of the derivative liabilities of $21,021 was determined using the Black Scholes Option Pricing model with the following assumptions: dividend yield: 0%; volatility: 345.52%; risk free rate: 0.59% to 0.73%; and expected life: 0.84 to 1.90 years.

As of March 31, 2016 and December 31, 2015, the Company did not have any derivative instruments that were designated as hedges.

The derivative liability as of March 31, 2016, in the amount of $21,021 has a level 3 classification.

The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities as of March 31, 2016:

		Derivative Liability
Balance, December 31, 2015	$	-
Total (gains) losses		
Transfers in of Level 3 upon issuance of convertible notes payable		16,781
Mark-to-market at March 31, 2016:		4,240
Balance, March 31, 2016	$	21,021
Net Loss for the period included in earnings relating to the liabilities held at March 31, 2016	$	(4,240)

Fluctuations in the Company's stock price are a primary driver for the changes in the derivative valuations during each reporting period. The Company's stock price increased by 50% from February 1, 2016 to March 31, 2016. As the stock price increases for each of the related derivative instruments, the value to the holder of the instrument generally increases, therefore increasing the liability on the Company's balance sheet. Additionally, stock price volatility is one of the significant unobservable inputs used in the fair value measurement of each of the Company's derivative instruments.

NOTE 11 – STOCKHOLDERS' EQUITY

Preferred Stock

At March 31, 2016 and December 31, 2015, the Company has authorized 10,000,000 shares of Series A convertible preferred stock, par value $0.001, of which none are issued and outstanding as of March 31, 2016 and December 31, 2015. The Series A convertible preferred stock which has rank senior to common and all other preferred stock of the corporation and equal or junior to any preferred stock that may be issued in regard to liquidation; not entitled to dividends and is convertible, at the holders' option, at 10 shares of common stock for each share of Series A preferred stock.

Common stock

At March 31, 2016 and December 31, 2015, the Company has authorized 500,000,000 shares of common stock, par value $0.001, of which 104,612,082 are issued and outstanding as of March 31, 2016 and December 31, 2015.

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NOTE 12 – WARRANTS AND OPTIONS

Common stock warrants

The following table summarizes warrants outstanding and related prices for the shares of the Company's common stock issued to shareholders at March 31, 2016:

		Warrants Outstanding			Warrants
		Weighted Average			Exercisable
		Remaining	Weighted		Weighted
	Number	Contractual	Average	Number	Average
Exercise Price	Outstanding	Life (years)	Exercise price	Exercisable	Exercise Price
$ 0.01 to 0.10	38,925,000	2.75	$ 0.10	38,925,000	$ 0.10
0.11 to 0.20	16,475,000	1.52	0.15	16,475,000	0.15
0.21 to 0.30	17,000,000	0.72	0.25	17,000,000	0.25
Total	72,400,000	1.99	$ 0.15	72,400,000	$ 0.15

Transactions involving the Company's warrant issuance are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2015	72,385,000	0.15
Issued	325,000	0.15
Exercised	-	-
Expired	(310,000)	(0.29)
Outstanding at March 31, 2016	72,400,000	$ 0.15

In conjunction with the issuance of convertible notes, during the three months ended March 31, 2016, the Company issued warrants to purchase 250,000 shares of common stock with an exercise price of $0.15 per share expiring three years from the date of issuance. Please see Note 9.

During the three months ended March 31, 2016, the Company issued 75,000 common stock warrants in connection with services provided. The warrants are exercisable for three years from the date of issuance at an exercise price of $0.15 per common share. The warrants were valued using the Black Sholes option pricing method with the following assumptions: dividend yield $-0-, volatility of 338.33 %, risk free rate of 1.11% and expected life of 3.00 years. The determined estimated fair value of $1,860 was charged to operations during the three months ended March 31, 2016.

Preferred stock warrants

The following table summarizes warrants outstanding and related prices for the shares of the Company's Series A convertible preferred stock issued at March 31, 2016:

		Warrants Outstanding			Warrants Exercisable
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Weighted Average Exercise Price
$ 0.50	2,120,000	3.80	$ 0.50	1,120,000	$ 0.50
1.00	71,000	1.47	1.00	71,000	1.00
1.50	333,500	1.42	1.50	333,500	1.50
Total	2,524,500	3.42	$ 0.65	1,524,500	$ 0.74

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Transactions involving the Company's warrant issuance are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2015	2,524,500	0.65
Issued	-	-
Exercised	-	-
Expired		
Outstanding at March 31, 2016	2,524,500	$ 0.66

Options

The following table summarizes options outstanding and related prices for the shares of the Company's common stock issued at March 31, 2016:

Exercise Price	Number Outstanding	Option Outstanding Options Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Options Exercisable Weighted Average Exercise price
$ 0.015	3,000,000	4.92	$ 0.015	2,000,000	$ 0.015
0.02	2,250,000	6.83	0.02	250,000	0.02
0.025	250,000	6.40	0.025	250,000	0.025
0.06	3,000,000	2.17	0.06	3,000,000	0.06
0.09	250,000	2.68	0.09	250,000	0.09
0.095	500,000	2.80	0.095	500,000	0.095
0.10	650,000	1.94	0.10	650,000	0.10
0.13	500,000	1.09	0.13	500,000	0.13
0.17	4,500,000	1.02	0.17	4,500,000	0.17
0.19	1,000,000	0.35	0.19	1,000,000	0.19
0.22	175,000	1.00	0.22	175,000	0.22
5.00	1,517,434	0.40	5.00	1,517,434	5.00
Total	17,592,434	2.72	$ 0.51	14,592,434	$ 0.58

Transactions involving the Company's option issuance are summarized as follows:

	Number of Shares		Weighted Average Price Per Share
Outstanding at December 31, 2015	15,592,434		0.67
Issued	2,000,000		0.02
Exercised	-		-
Expired	-		
Outstanding at March 31, 2016	17,592,434	$	0.51

In February 2016, the Board granted stock options to purchase 2,000,000 shares of common stock of the Company at exercise price of $0.02 with exercise period of seven years to an officer, vesting 1/3 each anniversary for three years. The grant was valued using the Black-Scholes option pricing model and had a value of $39,000 and will be charged to operations through the vesting period.

The Black-Scholes option pricing model used the following assumptions: Dividend yield: 0%; Volatility: 348.27%; and Risk Free rate: 1.72%.

Total stock-based compensation expense for options for the three months ended March 31, 2016 and 2015 amounted to $4,861 and $3,750, respectively.

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DEBT RESOLVE, INC.

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NOTE 13 – COMMITMENTS AND CONTINGENCIES

Payroll taxes

Due to a lack of capital, the Company has been unable to pay all of the compensation owed to its employees. In addition, in 2011, 2012 and the first quarter of 2013, the Company did not pay certain federal and state payroll tax obligations due for employees' compensation, and they have become delinquent. As a result, the Company has included in accrued expenses an amount of approximately $100,000 at March 31, 2016 that represents an estimate that could be expected upon settlement of these payroll taxes with the respective taxing authorities. In April, 2015, an agreement was reached with the IRS that details an agreed upon amount owed and a 17 month payment plan for same. In addition, the Company has contacted the state involved and anticipates settlement discussions in the near future.

NOTE 14 – RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2016 and 2015, certain Company directors personally guarantee the Company's notes payable and its' bank loan (Note 8). Also, certain directors and officers made short-term or longer term loans as discussed in Note 7 and 8. Total interest expense in connection with notes payable to related parties and related party lines of credit amounted $27,757 and $23,239 for the three months ended March 31, 2016 and 2015, respectively.

Progress Advocates

The Company reimburses the 49% owner (non-controlling interest party) for payroll, marketing and general expenses incurred by Progress Advocates. For the three months ended March 31, 2016 and 2015, the Company reimbursed approximately $289,311 and $626,806 in incurred costs, respectively.

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DEBT RESOLVE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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NOTE 15 – RESTATEMENT

The accompanying unaudited condensed consolidated balance sheet as of March 31, 2016 has been restated for the purpose of correcting an error in classification of accounts receivable, trade between long-term and short-term assets.

Accordingly, the Company restated the unaudited condensed consolidated balance sheet as of March 31, 2016 by disclosing this error in this Form 10-Q/A.

The changes in the reported amounts are summarized in the following reconciliation of the Company’s restated unaudited condensed consolidated balance sheet as of March 31, 2016:

	(As restated)	(As reported)
ASSETS		
Current assets:		
Cash	$ 14,249	$ 14,249
Accounts receivable, net	1,138,990	4,138,956
Prepaid expenses	36,848	36,848
Total current assets	1,190,087	4,190,053
Long term assets:		
Accounts receivable, net	2,999,966	-
Total assets	$ 4,190,053	$ 4,190,053
LIABILITIES AND STOCKHOLDERS' DEFICIENCY (unchanged)	$ 4,190,053	$ 4,190,053

NOTE 16 – SUBSEQUENT EVENTS

New Joint Venture:

On May 18, 2016, the Company entered into an agreement with Hutton Ventures LLC to form Student Loan Care LLC of which Debt Resolve will own 51% and Hutton Ventures will own 49%. The purpose of this new company will be to provide Federal Student Loan document preparation services for the consolidation or modification of Federal Direct Student Loans. In connection with entering into the Student Loan Care joint venture with Hutton Ventures, we issued to Hutton Ventures 5,000,000 shares of Debt Resolve common stock, par value $0.001 per share, and three seven-year warrants to purchase an aggregate of 30,000,000 shares of Debt Resolve common stock, par value $0.001 per share, at an exercise price of $0.05 per common share. The first warrant for 5,000,000 shares of Debt Resolve common stock vests and becomes exercisable upon the achievement by Student Loan Care of specific increasing revenue goals. The second warrant for 20,000,000 shares of Debt Resolve common stock vests and becomes exercisable when Student Loan Care achieves specific cumulative "operating income" goals. The third warrant for 5,000,000 shares of Debt Resolve common stock vests and becomes exercisable upon the achievement by Student Loan Care and affiliates of revenue for the year ending December 31, 2018 equal to or greater than 75% of Debt Resolve's total revenue for the year ending December 31, 2018.

Litigation:

On April 11, 2016, a Decision was entered in the matter of a noteholder's claim (as described in Part 1, Item 3 (under "Defaults upon Senior Securities") against Debt Resolve Inc., granting the noteholder's motion for summary judgment in part, and denying it in part, and denying Debt Resolve's cross motion for summary judgment. No damages have been determined against Debt Resolve on the noteholder's claims as of yet and Debt Resolve is evaluating its alternatives, including an appeal of the Court's Decision.

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Item 2. Management Discussion & Analysis of Financial Condition and Results of Operations

Overview

Business Growth Strategy Update

During the quarter ending March 31, 2016, significant progress was made in the implementation of our new strategies. While individual setbacks were expected and did occur, each was addressed and positive momentum resumed for the respective strategy. The following is a brief review of the important progress achieved in each strategy:

- **Develop Progress Advocates LLC (PA) into a profitable growth business** that is compliant and sustainable in an industry of changing regulations and operating conditions. As discussed in our 2015 10-K, PA experienced rapid growth in customer acquisitions in 2015 and an unexpected increase of customer cancelations in the fourth quarter of 2015. In January 2016, we conducted an in depth evaluation of PA's 2015 operations and financial performance. While concerned about the high cost of marketing during the year, it became evident, in retrospect, that the cost of acquisition was too high, when combined with even a moderate level of customer churn, to sustain a profitable business. In response, we suspended marketing and sales operations until the marketing and retention process can be changed to bring our cost of customer acquisition in line with a sustainable business model. We have identified a different marketing process, to be used by our new subsidiary Student Loan Care LLC (see Subsequent Events section), and will be evaluating the results at the end of the second quarter of 2016.

- **Leverage our technology and knowledge of consumer debt collection to launch a new internet based product in the consumer to consumer debt resolution and collection space.** This new product launched under the name Settl.it (www.settl.it) is currently available, but not being aggressively marketed. The cost of an expansive launch of Settl.it is currently unfeasible. Therefore, a targeted launch is underway focused on consumers looking for small claims courts alternatives and on State Small Claims Courts looking for a tool to offload some of the cost of face to face adjudication. However, field research found bigger demand for a small business product with capabilities similar to the traditional Debt Resolve service, now named the Settl.it Enterprise Service, and a user interface as easy to use as Settl.it. This new product, Settl.it Pro is currently under development. In addition, an online mediation company has white labeled Settl.it from us and completed the integration of Settl.it into their product, Equisettle, www.equisettle.com. Other online application providers have also approached us and we are working with an additional provider to integrate Settle.it into their product as well.

- **Enhance the Debt Resolve Solution by integrating it with other services to become a total solution for the ARM market.** As vast as the ARM market has become, this strategy has been narrowed to focus on the needs of hospitals and medical practices. During 2015, we initiated discussions with other companies to create two products that will utilize the traditional Debt Resolve service as one component in an integrated offering. The first product is being used by Medical Practices and Hospitals looking to give patients with unpaid accounts one last chance to pay. The one last chance will be a negotiated settlement offering using Debt resolve's patented double blind bidding technology. This product is being sold by another majority owned joint venture, Payment Resolution systems LLC. A pilot of this business was run in March of 2016 with a NYC Anesthesiology practice. The results were better than expected and a national sales effort has been initiated. The second product will be a billing and collections system for a company financing patient receivables. Again, the Debt Resolve service will provide collection support throughout the life of the patient's loan, including negotiated delinquency collection. In addition to the above new offerings, the traditional Debt Resolve service, was renamed Settl.it Enterprise and is the core offering in a new U.K. joint venture, Settlit Ltd.

- **Leverage our public equity financial structure by purchasing equity interests in private companies that will benefit from the experience and skills of our management and consultants as well as from holding our publicly traded equity.** During the first quarter of 2016, we created the following majority owned joint ventures with other partners. Payment Resolution Systems LLC (PRS) was formed with Patient Online services, LLC to offer Hospitals and Medical Practices a first party payment negotiation and collection service. Settl.it LLC is a 51% owner of PRS and no compensation was received by either party for the creation of the entity. Settlit Ltd was formed with ADL Ltd. to offer the Settl.it family of products in the U.K. Settl.it LLC is a 51% owner of Settlit Ltd. and no compensation was received by either party for the creation of this entity. As discussed in the Subsequent Events section, Student Loan Care LLC was formed with Hutton Ventures LLC to offer document preparation services for Federal student loan holders wanting to apply for various U.S. Department of Education Student loan payment modification programs. More information on this joint venture is available in the Subsequent Events section.

To communicate and support the above strategies, we created a new branding strategy to unify our offerings and position us as "a provider of cloud-based software and services to help both lenders and borrowers solve the problems inherent in our credit-based economy". To start, we unified our offerings under the Settl.it Family of Products. For medium and large companies, we offer the Settl.it Enterprise Service. For small businesses, we will be offering Settl.it Pro, with an easy–to-use online interface and much of the functionality of the Enterprise service. For consumers, we have launched Settl.it, an easy-to-use online consumer to consumer financial dispute resolution tool. All three of these products utilize our patented double blind bidding technology. To communicate our offerings, we have launched a new investor focused Debt Resolve website, www.debtresolve.com, and new prospective client focused websites; Settl.it Family of Products website, www.settl.com, and Payment Resolution Systems, www.paymentresolutionsustems.com. In addition, the Settl.it consumer to consumer product can be utilized at www.settl.it and our Progress Advocates federal student loan document preparation services can be obtained at www.progressadvocates.com.

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Results of Operations for the Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015

Revenues

Revenues totaled $657,644 and $470,093 for the three months ended March 31, 2016 and 2015, respectively. We earned revenue during the three months ended March 31, 2016 and 2015 as a percent of debt collected, on a fee per settlement and on a flat monthly fee basis. In addition, in December 2014, we began earning revenue from fees for providing student loan document preparation services. The increased revenue mainly resulted from our majority owned subsidiary, Progress Advocates LLC of $627,721 for the three month ending March 31, 2016 as compared to $441,156 for the same period last year.

Costs and Expenses

Payroll and related expenses. Payroll and related expenses amounted to $314,654 for the three months ended March 31, 2016, as compared to $338,204 for the three months ended March 31, 2015, a decrease of $23,550. Stock based compensation was $46,721 and $7,376 for the three months ended March 31, 2016 and 2015, respectively. The decrease mainly resulted from our staffing reductions from our majority owned subsidiary, Progress Advocates LLC from $256,850 for the three months ended March 31, 2015 as compared to $170,381 for the same period, current year

Selling and marketing expenses. Selling and marketing expenses decreased from $358,800 for the three months ended March 31, 2015 to $124,500 for the same period in 2016. The significant decrease is due to the reduced sales and marketing activities of Progress Advocates LLC., our majority owned subsidiary.

General and administrative expenses. General and administrative expenses amounted to $741,548 for the three months ended March 31, 2016, as compared to $389,807 for the three months ended March 31, 2015, an increase of $351,741. Of the increase, $586,957 was incurred from our subsidiary, Progress Advocates LLC, in the current year, as compared to $145,828 for the three months ended March 31, 2015. During the three months ended March 31, 2016, the most significant expense incurred by Progress Advocates were from bad debt reserves.

Gain (loss) on change in fair value of derivative liabilities. In 2016, we issued convertible promissory notes with certain embedded derivatives, as such, any issued convertible instruments issued subsequent require us to fair value the conversion feature as derivatives each reporting period and mark to market as a non-cash adjustment to our current period operations. For the three months ended March 31, 2016, we incurred a $4,240 loss on change in fair value of our derivative liabilities.

During the three months March 31, 2015, we had the possibility of exceeding common shares authorized when considering the number of possible shares that may be issuable to satisfy settlement provisions of these agreements after consideration of all existing instruments that could be settled in shares. The accounting treatment of derivative financial instruments requires us to reclassify the derivative from equity to a liability at their fair values as of the date possible issuable shares exceeded the authorized level and at fair value as of each subsequent balance sheet date. For the three months ended March 31, 2015, we recorded a gain on change in fair value of these derivative liabilities of $73,299.

Interest (expense). We recorded interest expense of $251,709 for the three months ended March 31, 2016 compared to interest expense of $107,576 for the three months ended March 31, 2015. Interest expense increased primarily from our financing of accounts receivable with Progressive Advocates.

Amortization of deferred debt discount. Amortization expense of $30,238 and $19,573 was incurred for the three months ended March 31, 2016 and 2015, respectively, for the amortization of the value of the deferred debt discount associated with certain of our notes payable. Amortization expense increased due to new notes added in 2015 and 2016.

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Liquidity and Capital Resources

As of March 31, 2016, we had a working capital deficiency (total current liabilities exceeded total current assets) in the amount of $11,737,653 and cash and cash equivalents totaling $14,249. We reported a net loss of $809,246 for the three months ended March 31, 2016. Net cash used in operating activities was $138,244 for the three months ended March 31, 2016. Cash flow provided by financing activities was $122,013 for the three months ended March 31, 2016. As of December 31, 2015, we had a working capital deficiency (total current liabilities exceeded total current assets) in the amount of $10, 313,663 and cash and cash equivalents totaling $30,480.

Our working capital as of the date of this report is negative and is not sufficient to fund our plan of operations for the next year. The aforementioned factors raise substantial doubt about our ability to continue as a going concern.

We have successfully raised capital for our day-to-day operations since our inception; however, no assurance can be provided that we will continue to be able to do so. There is no assurance that any funds secured will be sufficient to enable us to attain profitable operations or continue as a going concern. To the extent that we are unsuccessful, we may need to curtail our operations and implement a plan to extend payables and reduce overhead until sufficient additional capital is raised to support further operations. At any time until substantial capital is raised or we reach cash flow breakeven, there is also a significant risk of bankruptcy. There can be no assurance that any plan to raise additional funding will be successful. It is quite challenging in the current environment to raise money given our delay in generating meaningful revenue. Unless our revenue grows quickly, it may not be possible to demonstrate the progress investors require to secure additional funding. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. These estimates and assumptions are based on our management's judgment and available information and, consequently, actual results could be different from these estimates. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are as follows:

Revenue Recognition

We earn revenue from collection agencies, collection law firms and lenders that implemented our online system. Our current contracts provide for revenue based on a percentage of the amount of debt collected, a fee per settlement or through a flat monthly fee. Although other revenue models have been proposed, most revenue earned to date has been determined using these methods, and such revenue is recognized when the settlement amount of debt is collected by the client or at the beginning of the month for a flat fee. For the early adopters of our product, we have waived set-up fees and other transactional fees that we anticipate charging in the future. While the percent of debt collected will continue to be a revenue recognition method going forward, other payment models are also being offered to clients and may possibly become our preferred revenue model. Dependent upon the structure of future contracts, revenue may be derived from a combination of set up fees or flat monthly or annual fees with transaction fees upon debt settlement, fees per account loaded or fees per settlement. We are currently marketing our system to three primary markets. The first and second are financial institutions and collection agencies or law firms, our traditional markets. We are also expanding into healthcare, particularly hospitals, which is our third market.

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Revenues for the preparation of student loan documentation are earned when the Company has substantially accomplished the agreed-upon deliverables to be entitled to payment by the client. For most current active clients, these deliverables consist of the completion and delivery of the student loan modification and consolidation documentation package on behalf of the client to the U.S. Department of Education. The Company may sell its products separately or in various bundles that include multiple elements such as initial fees, monitoring, annual renewals and other services.

We defer any revenue for which the product or service has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

Accounts Receivable

Accounts receivable are receivables generated from sales to customers and progress billings on performance type contracts. Amounts included in accounts receivable are deemed to be collectible within the Company's operating cycle. Management provides an allowance for doubtful accounts based on the Company's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have been exhausted and the prospects for recovery are remote.

As of March 31, 2016 and December 31, 2015, the Company's accounts receivable was $5,167,430 and $3,463,161, net of allowance for doubtful accounts of $1,028,474 and $600,000, respectively.

The Company's majority owned subsidiary, Progress Advocates LLC entered into a factoring agreement which had certain provisions that factor advances based on either a non-recourse and recourse basis. During the first quarter of 2016, the Company agreed to modify the terms of the factoring agreement whereby the outstanding advances which were originally based upon a non-recourse basis will be reclassified to a full recourse advances. Accordingly, the Company reclassified the outstanding advances outstanding advances of $1,128,701 to a full recourse liability to factor, increased the carrying value of accounts receivable by $1,128,701, net of an allowance for doubtful accounts of $212,388.

Stock-based compensation

We follow Accounting Standards Codification subtopic 718-10, Stock-based Compensation ("ASC 718-10"). The standards require the measurement of compensation cost at the grant date, based upon the estimated fair value of the award, and requires amortization of the related expense over the employee's requisite service period.

Fair Values

Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities, and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

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We follow Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10") and Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10"), which permits entities to choose to measure many financial instruments and certain other items at fair value. None of these statements had an impact on the Company's financial position, results of operations or cash flows.

Derivative Liability

We account for derivatives in accordance with ASC 815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged. At March 31, 2016 and December 31, 2015, we did not have any derivative instruments that were designated as hedges.

Recently-Issued Accounting Pronouncements

See recently adopted and issued accounting standards in "Note 2—Significant accounting policies" in Item 1. Financial statements of this report.

Statement Relating to Forward-Looking Statements

This report contains forward-looking statements that are based on our beliefs as well as assumptions and information currently available to us. When used in this report, the words "believe," "expect," "anticipate," "estimate," "potential" and similar expressions are intended to identify forward-looking statements. These statements are subject to risks, uncertainties and assumptions, including, without limitation, the risks and uncertainties concerning our recent research and development activities; the risks and uncertainties concerning acceptance of our services and products, if and when fully developed, by our potential customers; our present financial condition and the risks and uncertainties concerning the availability of additional capital as and when required; the risks and uncertainties concerning the Limited License Agreement with Messrs. Brofman and Burchetta; the risks and uncertainties concerning our dependence on our key executives; the risks and uncertainties concerning technological changes and the competition for our services and products; the risks and uncertainties concerning general economic conditions; and the risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2015, filed on April 14, 2016, in the section labeled "Risk Factors." Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you not to place undue reliance on any forward-looking statements, all of which speak only as of the date of this report.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that we disclose required information in a timely manner and in accordance with the Securities Exchange Act of 1934 (the "Exchange Act") and the rules and regulations promulgated by the SEC. Our Chief Executive Officer has participated in such evaluation. Management concluded, based on such review, that our disclosure controls and procedures, as defined by Exchange Act Rules 13a-15(e) and 15d-15(e), were not effective as of the end of the period covered by this Quarterly Report on Form 10-Q. The ineffectiveness of these disclosure controls is due to the matters described below in "Internal Control over Financial Reporting."

Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide a reasonable assurance of achieving their objectives and our Chief Executive Officer has concluded that such controls and procedures are not effective at the "reasonable assurance" level. The ineffectiveness of these disclosure controls is due to the matters described below in "Internal Control over Financial Reporting."

Internal Control over Financial Reporting

Segregation of duties within our Company is limited due to the small number of employees that are assigned to positions that involve the processing of financial information. Specifically, certain key financial accounting and reporting personnel had an expansive scope of duties that allowed for the creation, review, approval and processing of financial data without independent review and authorization for preparation of consolidation schedules and resulting financial statements and related disclosures. We did not maintain a sufficient depth of personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of Generally Accepted Accounting Principles commensurate with financial reporting requirements.

Accordingly, we place undue reliance on the finance team at corporate headquarters, specifically the executive who is our Chief Executive Officer and outside accounting professionals.

Accordingly, management has determined that this control deficiency constitutes a material weakness. This material weakness could result in material misstatements of significant accounts and disclosures that would result in a material misstatement to our interim or annual consolidated financial statements that would not be prevented or detected. In addition, due to limited staffing, we are not always able to detect minor errors or omissions in reporting.

Going forward, management anticipates that additional staff will be necessary to mitigate these weaknesses, as well as to implement other planned improvements. Additional staff will enable us to document and apply transactional and periodic controls procedures, permit a better review and approval process and improve quality of financial reporting. However, the potential addition of new staff is contingent on obtaining additional financing, and there is no assurance that we will be able to do so.

Management believes that its unaudited condensed financial statements for the three months ended March 31, 2016 and 2015 fairly presented, in all material respects, its financial condition and results of operations. During the three months ended March 31, 2016, there were no changes to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Lawsuits from Noteholders

On July 20, 2015, the Company received a complaint concerning a promissory note dated December 21, 2007 that matured on June 21, 2009. See Subsequent Events, Note 15 (Litigation).

Lawsuits from vendors

From time to time, we are involved in various litigation matters in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position or results of operations. There are currently no lawsuits from vendors.

New York State Attorney General Subpoena

In December 2015, the Company and Progress Advocates, its majority owned subsidiary, received a subpoena requesting documents regarding the operations of Progress Advocates. It is our understanding that this request was one of several requests sent to companies operating in the Federal Student Loan document preparation space in New York State. We have provided the requested information, both from Progress Advocates and its vendors. We are confident that our compliance with payments aligned to the consumer's receipt of benefit and our responsible marketing will be accurately demonstrated in the information provided.

Item 1A. Risk Factors

As a "small reporting company" as defined by Item 10 of Regulation S-K, we are not required to provide information required by this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

Investor Note 1:

On December 21, 2007, an unaffiliated investor loaned us $125,000 on an unsecured 18-month note with a maturity date of June 21, 2009. The note has a provision requiring repayment once we raised an aggregate of $500,000 following issuance of this note. As a result, this note is currently in default as it has not been repaid and we reached the $500,000 threshold in September, 2008. The note carries interest at a rate of 12% per annum, with interest accruing and payable at maturity. In conjunction with the note, we granted to the investor a warrant to purchase 37,500 shares of common stock at an exercise price of $1.07 and an expiration date of December 21, 2012. This note is guaranteed by, a shareholder and former Company director. On April 10, 2008, we borrowed an additional $198,000 from this investor. Please see discussion below.

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On April 10, 2008, an unaffiliated investor loaned us an additional $198,000 on an amendment of the prior unsecured note with a maturity date of June 21, 2009 for the entire balance of the first note plus the amendment ($323,000 total). The note carries interest at a rate of 12% per annum, with interest accruing and payable at maturity. The outstanding principal and interest may be repaid, in whole or in part, at any time without prepayment penalty. In conjunction with the note, we also issued a warrant to purchase 99,000 shares of common stock at an exercise price of $2.45 and an expiration date of April 10, 2013. This warrant has a "cashless" exercise feature. This note is guaranteed by a Director of the Company. The amended note maintains the provision requiring repayment of the note upon raising gross proceeds of $500,000 subsequent the issuance of the note.

At September 30, 2008, we had raised in excess of $500,000 subsequent to this amended note, and as a result, this note is in default. We also issued 50,000 shares of common stock valued at $122,130 in order to induce the investor to forbear on the note, which was included in expenses.

On February 12, 2010, we converted $74,867 of accrued interest through January 2010 and $65,133 of principal on the note to stock.

On August 27, 2010, the investor was paid $80,000 in principal through partial sale of the note, leaving a remaining balance of $177,867 plus accrued interest due on the note as of March 31, 2016. As of March 31, 2016, this note has matured and is still outstanding and is in default at this time.

Convertible Notes:

From June 2009 to March 2010, unaffiliated investors loaned the Company an aggregate of $1,237,459 (including $20,000 related party) on three-year Series A Convertible Notes with an interest rate of 14% with an aggregate of $837,000 (including $20,000 related party) remaining at March 31, 2016. The interest accrues and is payable at maturity, which range in dates from August 2012 to March 2013. The conversion price is set at $0.15 per share. The Notes carry a first lien security interest in all of the assets of the Company. In 2015 and 2016, the Company extended for 18 months $734,500 of the outstanding debt.

During year ended December 31, 2010, unaffiliated investors loaned the Company an aggregate of $275,000 on three-year Series B Convertible Notes with an interest rate of 14%. During the year ended December 31, 2010, $50,000 was repaid in cash, leaving a balance of $225,000 on these notes at March 31, 2016. The interest accrues and is payable at maturity. The conversion price is set at $0.15 per share. The Notes carry a first lien security interest in all of the assets of the Company with the Series A notes above. In 2014 and 2015, the Company extended for 18 months $175,000 of the outstanding debt.

During the year ended December 31, 2010, unaffiliated investors loaned the Company an aggregate of $260,000 ($15,000 related party) on three-year Series C Convertible Notes with an interest rate of 14%. The interest accrues and is payable at maturity. The conversion price was set at $0.15 per share. The notes carry a first lien security interest with the Series A and B notes above in all of the assets of the Company. In 2014 and 2015, the Company extended for 18 months $155,000 of the outstanding debt.

During the year ended December 31, 2011, the Company issued an aggregate of $25,000 of Series D Convertible Notes with an interest rate of 14% due three years from the date of issuance of which $21,000 remains as of March 31, 2016. The interest accrues and is payable at maturity. The conversion price is set at $0.12 per share. The investors have a second lien position behind the Series A, B and C notes. In 2014 and 2015, the Company extended for 18 months $15,000 of the outstanding debt.

Item 4. Mining Safety Disclosures

Not applicable

Item 5. Other Information

None

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Item 6. Exhibits

31.1	Certification of Chief Executive Officer required by Rule 13(a)-14(a).
32.1	Certifications required by Rule 13(a)-14(b) and 18 U.S.C. Section 1350.
101.INS **	XBRL Instance Document
101.SCH **	XBRL Taxonomy Extension Schema Document
101.CAL **	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF **	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB **	XBRL Taxonomy Extension Label Linkbase Document
101.PRE **	XBRL Taxonomy Extension Presentation Linkbase Document

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEBT RESOLVE, INC.

Dated: December 12, 2016

By: */s/ Bruce E. Bellmare*
Chief Executive Officer/Principal Accounting Officer
(Principal executive officer/Principal accounting officer)