

DEBT RESOLVE INC
Form 10-K
April 17, 2017

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

FORM 10-K

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

For the fiscal year ended **December 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.: **001-33110**

DEBT RESOLVE, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

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

1133 Westchester Ave., Suite S-223
White Plains, New York
(Address of principal executive offices)

10604
(Zip Code)

(914) 949-5500

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.001 per share	None

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 No

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

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

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

On June 30, 2016, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value (based on the closing sales price on that date) of the voting stock held by non-affiliates of the registrant was \$724,627. Shares of common stock held by each current executive officer and director and by each person who is known by the registrant to own 10% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not a conclusive determination for other purposes.

As of April 17, 2017, 121,264,809 shares of the registrant’s Common Stock were outstanding.

Documents Incorporated by Reference: None

DEBT RESOLVE, INC.

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PART I.

ITEM 1. Business

This report contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as the development or regulatory approval of new products, enhancements of existing products or technologies, revenue and expense levels and other statements regarding matters that are not historical are forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under the heading "Risk Factors" below, as well as those discussed elsewhere in this report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by federal securities laws, we undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report. Readers are urged to carefully review and consider the various disclosures made in this report, including under Item 1A, "Risk Factors," which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Overview

Debt Resolve, Inc. is a Delaware corporation formed in April 1997. Our traditional business has been providing software solutions to consumer lenders or those collecting on consumer loans using a Software-as-a-Service (SaaS) model. These solutions facilitate web-based payments or the resolution of delinquent or defaulted consumer debt. We have marketed our services primarily to consumer banks, collection agencies, and the buyers of defaulted debt in the United States. Other opportunities exist for marketing our software to hospitals and large physician groups. In addition, client results show that our solution is attractive for the collection of low balance debt, such as that held by utility companies and online service providers, where the cost of traditionally labor intensive collection efforts may exceed the value collected. We are pursuing these markets as well as our traditional markets.

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 Federal Student Loan document preparation industry with ownership interests of 51% and 49% for the Company and LSH, LLC, respectively. This joint venture was operated under service agreements with LSH companies. In February, 2016, sales and marketing operations were suspended due to unmanaged marketing costs and customer retention issues that resulted in current and forecasted future net losses. This joint venture provided 12 months of operating experience in this growing industry as well as positive feedback as the first company in our joint venture strategy, described below.

In February 2016, the Company, jointly with Patient Online Services, LLC, organized Payment Resolution Systems LLC, a Delaware limited liability company for the purpose of assisting Medical Groups and Hospitals in the online negotiation and settlement of delinquent accounts, with ownership interests of 51% and 49% for the Company and Patient Online Services, LLC, respectively.

In May 2016, the Company, jointly with Hutton Ventures LLC, organized Student Loan Care LLC, a Delaware limited liability company for the purpose of providing document preparation services for holders of Federal Direct Student Loans, with ownership interests of 51% and 49% for the Company and Hutton Ventures LLC, respectively. The business model for this joint venture addresses the issues noted above that caused the suspension of sales at Progress Advocates LLC.

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The Company operates Payment Resolution Systems within Debt Resolve, Inc., whereas Progress Advocates LLC and Student Loan Care LLC operate as independent subsidiaries.

Business Growth Strategy Update

During the year ending December 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:

- **Student Loan Care LLC was launched in June 2016 and established itself as a financially viable company in the year ending December 31, 2016.** This new joint venture is a partnership with Hutton Ventures LLC., a California based company with extensive experience in the federal student loan document preparation industry. The business model for Student Loan Care, specifically addresses the issues of high marketing costs and customer churn, both of which were significant negative impacts on the Company's majority owned joint venture, Progress Advocates LLC. From its first month of operation in June 2016, Revenue grew every month from \$104,818 in June, to \$1,927,702 in the quarter ending December 31, 2016. Over the same period, operating income turned positive and grew every month from (\$170,305) June to \$464,906 in the quarter ending December 31, 2016. Gross margins were positive for the last six months, growing sequentially to 26% of sales. These margins were over 10% higher than the best monthly margin achieved by Progress Advocates in 2015. These margin improvements are a direct result of Student Loan Care's new marketing model that reduced the cost of customer acquisition by 40% as compared to the customer acquisition cost at Progress Advocates.

To enhance the sales efforts, in November 2016, Student Loan Care contracted with a non-related party to act as a sales affiliate. In this role, the affiliate will provide an external sales team to function as Student Loan Care salespeople. Each will be remotely integrated into the Student Loan Care sales infrastructure and will generate Student Loan Care sales for which the affiliate will be paid a sales commission. Early tests during the fourth quarter indicate this sales model can generate sales with only a modest 10% increase in customer acquisition cost. As the affiliate's sales team becomes more familiar with the Student Loan Care sales process, it is anticipated that sales productivity will be the same as Student Loan Care's internal sales team.

- **Progress Advocates continues to support its current customers as it evaluates other business options.** As previously reported in both the Company's 2015 Form 10-K and Form 10-Q for the quarter ending March 31, 2016, the Company suspended all marketing and sales activities during February of 2016. After continued discussions with our joint venture partner who was also the operator of Progress Advocates, the Company reached the conclusion that the changes necessary to reach profitability were not going to be made by our partner. By the beginning of 2016, it was evident that high marketing and sales costs, along with a

higher than expected default of customer payments, resulted in a business cost structure that was unworkable by current revenues. Progress Advocates will continue to support its current customers and provide to them all contracted services. In September, Progress Advocates initiated discussions to explore the sale of its loan portfolio. Initial response has been positive. However, no offers have been made to indicate the relative market value of this asset.

- **Enhance the Debt Resolve Solution by integrating it with other services to become a total solution for the medical ARM market.** Our majority owned joint venture, Payment Resolution Systems offers a service to 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. A pilot of this business was run in March and April of 2016 with a NYC Anesthesiology practice. The results were better than expected and a second pilot was run for an Atlanta GA Anesthesiology Group. This effort confirmed our initial results and demonstrated our ability to negotiate settlements for high and low account balances. A national sales effort has been initiated with significant interest by healthcare providers, however, the sales cycle has been longer than anticipated due to push back from the prospective client's current ARM vendors.

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- **Leverage our technology and knowledge of consumer debt collection to launch a new internet based product in the small business to consumer debt negotiation and collection space.** As resources were diverted to support the launch and development of Student loan Care LLC (see above), the development effort on Settl.it/Pro was postponed to the first quarter of 2017. A soft launch of this small business product is scheduled for April 2017. Pending market response, national availability is anticipated in May 2017.
- **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 second quarter of 2016, , 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 consolidation and modification programs. The principles of Hutton Ventures are experienced in the federal student loan document preparation industry and in the use of advanced communications techniques to increase productivity and profitability in a traditional people based business environment. To reward their successful participation in Student Loan Care LLC, goals for Student Loan Care revenue growth and net profit attainment have been established. Hutton Venture partners will be granted warrants for Debt Resolve common stock upon the attainment of each of these goals.

For additional information on the Company's product, visit these websites; 1. The Settl.it Family of Products website, www.settl.com, and 2. Payment Resolution Systems, www.paymentresolutionsystems.com. In addition, the Settl.it consumer to consumer product can be utilized at www.settl.it and our Student Loan Care federal student loan document preparation services can be obtained at www.studentloancare.com.

Corporate and Background Information

We were incorporated as a Delaware corporation in April 1997 under our former name, Lombardia Acquisition Corp. On May 7, 2003, our certificate of incorporation was amended to change our corporate name to Debt Resolve, Inc.

Our principal executive offices are located at 1133 Westchester Ave., Suite S-223, White Plains, New York 10604, and our telephone number is (914) 949-5500. As of December 31, 2016, we had a core Debt Resolve software business and two operating subsidiaries, Progress Advocates LLC and Student Loan Care LLC. Our website is located at <http://www.debtresolve.com>. Information contained in our website is not part of this report.

Our Strengths

While our products often offer unique and exclusive features that are beneficial to our customers, our strength is understanding the markets that we serve. In the Federal Student Loan document preparation space, we saw a need to overcome the perceived complexity of the DOE programs, educate the consumer on the important features of each program, and eliminate the high upfront cost associated with the use of a third party preparer. Our financing option allows prospective customers to benefit from our services at a low monthly cost. An additional result of the financing option is the positive impact that making payments has on the credit score of these low credit score customers. We also saw the need to match our receipt of payment to when the work is done for the customer. Our initial billing is designed to coincide with the customer's successful consolidation notification. In addition, our customer care representatives are available to provide guidance and assistance to keep the clients successfully in these valuable federal programs.

In the traditional Debt Resolve service space, the advantage is not having just a standalone debt collection product, but in having an integrated solution where the consumer decides which channel to be serviced through, which medium to be communicated through, and how to balance their financial resources with their financial obligations. During 2016, our offerings have changed to embrace these tenets. As described earlier, new offerings will further this evolution of the traditional Debt Resolve service with offerings for the large enterprise customer, small and medium businesses, and the consumer.

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Lastly, we recognized the opportunity that we, as a publicly held company, could offer to small successful businesses that populate much of our industries. Partnering with Debt Resolve offers these companies the equity benefits of a publicly held company and an exit strategy that will be on their terms rather than those of an unknown buyer. Working together, their business will grow faster, utilizing the financial and senior management skills available from Debt Resolve. The attractiveness of these potential benefits were validated in 2015 by the companies that are currently partnering with us or in partnership discussions with us.

Our Industry

Debt Collections Industry

According to the U.S. Federal Reserve Board, consumer credit has increased from \$133.7 billion in 1970 to \$3,543.9 billion in January 2016, a compound annual growth rate of approximately 7.3% for the period. In parallel, the accounts receivables management ("ARM") industry accounts for \$15 billion in annual revenues according to industry analyst Kaulkin Ginsberg.

There are several major collection industry trends:

- Profit margins are stagnating or declining due to the fixed costs of telephone-based collections. In addition, periods when the economy is weak means more delinquencies to collect but a higher inability on the part of debtors to pay. Thus, costs increase to generate the same level of revenue. The ACA International's 2012 Benchmarking & Agency Operations Survey shows that more than 50% of the operating costs are directly related to the cost of the collections agents, making the business difficult to scale using traditional staffing and collections methods.
- Small to mid-size agencies will need to offer competitive pricing and more services to compete with larger agencies, as well as focus on niche areas that require specialized expertise.
- Off-shoring has been used by both creditors and third-party collectors, but their results were less than expected due to cultural differences.
- Healthcare industry has been hit by rising costs, increased patient deductibles, and a significant increase in high deductible plans available on the government health insurance exchanges. These factors have caused patient out-of-pocket costs to double in the last 5 years. This combined with a reduction in available consumer credit have created a huge burden for Healthcare providers, including increased delinquency resulting in slower payments and increased patient account defaults.

Federal Student Loan Document Preparation Industry

In 1992, President H.W. Bush signed the first bill authorizing U.S. government backed student loans. The William D. Ford Federal Direct loan Program, in 2007, was the beginning of Department of Education involvement in the issuance of student loans directly to students. Then, in 2010, President Obama signed the Health Care and Education Reconciliation Act (HCERA), beginning government programs aimed at reducing the cost and burden of these Federal Direct Student Loan repayment for new graduates. Subsequently, in 2012 and 2015, President Obama signed Executive orders to expand these programs to all Federal Direct Student Loan borrowers who have graduated from 2007 to present. While there are three separate programs, they all fall into the categories of Income Based Repayment Plans, known as 'Pay as you Earn' and 'Student Loan Forgiveness'.

Companies in this industry, 1) advise the clients on the availability and details of each program, 2) determine an initial estimate of the loan modification and subsequent cost savings available for the client, 3) with input from the clients, prepare the documentation for submission to the U. S. Department of Education (DOE), 4) with client approval, submit the documentation to DOE on the client's behalf. Based on the data provided, DOE responds with an offer of loan consolidation or modification directly to the client. For the work processed on behalf of the client, companies charge a fee.

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While many companies in the industry end their services upon submission, others offer to monitor the clients account for delinquency and work with clients on the required annual renewal submissions to DOE. One mistake removes the client from the DOE program and restores the client's higher student loan payment requirement. For these services, an additional small fee is usually paid.

The opportunity within this industry is significant. As of 2015, over 20 million students per year were graduating with student loan debt, both Federal and private. Since the 2010 HCERA, government subsidies for private loans has ended and the majority of student loans are Federal. The gravity of the student loan burden is reflected in this data: DOE states that as of FY 2015 Q3, there is \$98 billion in Federal Loans in default (unpaid for over 270 days), which represents 7 million borrowers. The DOE programs are complicated and many consumers have difficulties selecting the correct program and completing the appropriate documentation without assistance. In addition, the first line of support to these consumers should be the DOE approved Student Loan Processors, who are paid on how much they collect. However, student loan processors have not done a good job in providing this assistance, perhaps because of the dilemma they face. If they help the consumer reduce their student loan payments, they reduce their collections and revenues. Much like the tax preparation industry, where everybody can do their own tax forms but don't, complicated government forms and programs have created a need for the Federal Student Loan document preparation services.

Technology License and Proprietary Technology

At the core of our Debt Resolve Solution and Settl.it online product is a patent-protected bidding methodology co-invented by the co-founders of our company. We originally entered into a license agreement in February 2003 with the co-founders for the licensed usage of the intellectual property rights relating to U.S. Patent No. 6,330,551, issued by the U.S. Patent and Trademark Office on December 11, 2001 for "Computerized Dispute and Resolution System and Method" worldwide. This patent, which expires August 5, 2018, covers automated and online, double blind-bid systems that generate high-speed settlements by matching offers and demands in rounds. Four subsequent patents have been issued and form a five patent "cluster" underpinning our license agreement. In June 2005, we amended and restated the license agreement in its entirety. The license agreement can be found in our SEC filings.

The licensed usage is limited to the creation of software and other code enabling an automated system used solely for the settlement and collection of delinquent, defaulted and other types of credit card receivables and other consumer debt and specifically excludes the settlement and collection of insurance claims, tax and other municipal fees of all types. The licensed usage also includes the creation, distribution and sale of software products or solutions for the same aim as above and with the same exclusions. In lieu of cash royalty fees, the co-founders have agreed to accept stock options to purchase shares of our common stock.

The term of the license agreement extends until the expiration of the last-to-expire patents licensed (now 5 patents) and is not terminable by the co-founders, the licensors. The license agreement also provides that we will have the right

to control the ability to enforce the patent rights licensed to us against infringers and defend against any third-party infringement actions brought with respect to the patent rights licensed to us subject, in the case of pleadings and settlements, to the reasonable consent of the co-founders. The terms of the license agreement, including the exercise price and number of stock options granted under the agreement, were negotiated in an arm's-length transaction between the co-founders, on the one hand, and our independent directors, on the other hand.

Technology and Service Providers

We outsource our web hosting to CyrusOne LLC, a Tier 1 data center providing our security in a SSAE 16 and PCI certified environment. The CyrusOne hosting facility is located in Wappingers Falls, New York. We use CyrusOne's servers to operate our proprietary software developed in our corporate offices.

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Competition

Internet-based technology was introduced to the collections industry in 2004 and has many participants at this time. A large number of collection agency software providers now offer an internet payment portal included with their software.

There are many new competitors entering the online collections market at this time. We are very closely monitoring their functionality to prevent an infringement of our patented settlement engine. Several cease and desist letters were sent in 2012 and 2014 to potential infringers to stop using technology that appears to use our protected process, and we will vigorously enforce our rights to protect our technology.

The Federal Student Loan document preparation industry is comprised of numerous small companies. Due to the relative newness of the industry, little data is available on the economics of participation. What is known is the cost of entry into the market is low, but the cost of compliance and adherence to regulatory guidelines is significant. This may explain the churn of small competitors into and out of the business. Those who decide to keep their costs low by ignoring regulators, do so at their own risk. State Attorneys General are keenly aware of some abuses in this industry and have taken action against the offending competitors.

Government Regulation

We believe that our traditional Internet technology business is not subject to any regulations by governmental agencies other than those routinely imposed on corporate and Internet technology businesses. We believe it is unlikely that state or foreign regulators would take the position that our solutions effectively constitute the collection of debts that is subject to licensing and other laws regulating the activities of collection agencies, as we have no client funds in our custody at any time. We simply provide a software suite that our clients use to conduct their business.

Also, as we move into the healthcare space, our healthcare clients have required us to include in their contracts with us that we meet the data protection provisions of the Health Insurance Portability and Accountability Act. This law is designed to ensure that patient care data is not personally identifiable in the event of a breach of our solutions. Again, this type of information is very susceptible to misuse in the commission of identity theft. We believe we have adequate policies and procedures in place to protect this information.

Our joint-venture, Student Loan Care LLC, operates within the sphere of influence of the U.S. Department of Education and could be impacted by any ensuing regulatory change. In addition, the laws under which DOE issues student loans and subsequent loan modification and forgiveness could be subject to new laws or Presidential orders.

Employees

As of April 17, 2016, we had two full-time employees and one independent contractor. Our employees and contractor are based at our corporate headquarters in White Plains, New York. Our majority owned joint venture, Student Loan Care LLC employs 41 full time employees in Santa Ana, CA. None of our employees is subject to a collective bargaining agreement, and we believe that our relations with our employees and contractor are good.

ITEM 1A. Risk Factors

Cautionary Statements and Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are important risks and uncertainties that could cause our actual results of operations, business and financial condition to differ materially from the results contemplated by the forward looking statements contained in this report.

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Risks Related to Our Business

We have experienced significant and continuing losses from operations which could impede the process of raising capital.

For the years ended December 31, 2016 and 2015, we had inadequate revenues and incurred net loss attributable to Debt Resolve, Inc. of \$1,778,178 and \$778,427, respectively. Cash used in operating activities for operations was \$3,775,802 and \$1,060,362 for the years ended December 31, 2016 and 2015, respectively.

However, on a cash flow basis, operating results for the fourth quarter of 2016 and first two months of 2017 have been cash flow positive. Further, our ability to run our business has been greatly enhanced by the Student loan Care operating results. In addition, as can be seen from our Consolidated Statement of Cash Flows (F-7), in the year ending December 31, 2016, we had a net increase in cash/cash equivalents of \$562,621. And we reduced our reliance on debt funding in the year ending December 31, 2016 to \$635,781 as compared to \$1,010,393 in the year ending December 31, 2015. Based upon projected operating expenses, while we understand our working capital as of April 17, 2017 may not be sufficient to fund our plan of operations for the next 12 months, we believe that our current operations will be able to generate enough cash to meet our operating needs.

If this were to change, any continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that we will prove successful. We have raised capital for our day-to-day operations since our inception in January 2003; 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, there is also a significant risk of bankruptcy. There can be no assurance that any plan to raise additional funding will be successful. The financial statements contained in this filing do not include any adjustments that might result from the outcome of this uncertainty.

We may rely heavily on the financial success of Student Loan Care LLC.

Going forward, we expect a large part of our revenue to come from our new subsidiary, Student loan Care LLC. While we have over two years of experience in the federal student loan document preparation sector, our business partners have 5 years of experience in this sector. We are relying heavily on their expertise, systems and guidance to manage this new business. However, there is substantial risk to this endeavor even though adequate revenue has been established for it to be profitable. the full recourse loan portfolio created by the financing payment option has no

historical experience to indicate what the future default rate may be. A high level of client defaults may not be adequately covered by the loan portfolio reserve account and the current provision for bad debt.

As discussed earlier in “Our Business Growth Strategy” section, additional joint venture businesses will be created to mitigate the financial impact on the Company from these potential issues.

Potential conflicts of interest exist with respect to the intellectual property rights that we license from our co-founders, and it is possible our interests and their interests may diverge.

We do not hold patents on our consumer debt-related product, but rather license technology for our Debt Resolve Solution and our Settl.it product from the co-founders of our company, whose patented technology is now, and is anticipated to continue to be, incorporated into the Debt Resolve Solution as a key component. This license agreement presents the possibility of a conflict of interest in the event that issues arise with respect to the licensed intellectual property rights, including the prosecution or defense of intellectual property infringement actions, where our interests may diverge from those of the co-founders. The license agreement provides that we will have the right to control and defend or prosecute, as the case may require, the patent rights licensed to us subject, in the case of pleadings and settlements, to the reasonable consent of the co-founders. Our interests with respect to such pleadings and settlements may be at odds with those of the co-founders.

Our auditors have issued a Going Concern Statement.

The accompanying 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 consolidated financial statements, we incurred a net loss attributable to Debt Resolve, Inc. of \$1,778,178 and \$778,427 for the years ended December 31, 2016 and 2015, respectively. Additionally, we have negative working capital (total current liabilities exceeded total current assets) of \$10,955,052 as of December 31, 2016. These factors among others raise substantial doubt about our ability to continue as a going concern.

Our continued existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. The accompanying consolidated 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 we be unable to continue as a going concern.

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We have issued preferred stock convertible to common stock that may have the effect of diluting then current stockholder interests and impairing their voting rights, and provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Our certificate of incorporation authorizes the issuance of up to 10,000,000 shares of preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue a series of preferred stock with dividend, liquidation, conversion, voting or other rights which could dilute the interests of, or impair the voting power of, our common stockholders.

On May 2, 2014, our board of directors designated 5,000,000 shares of preferred stock as Series A Convertible Stock ("Series A") with a \$0.001 par value. The Series A preferred stock ranks senior to common stock and all other preferred stock, and equal or junior to any preferred stock that may be issued in regard to liquidation; is 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. On July 2, 2015, we issued 47,500 shares of Series A preferred stock for services rendered. In 2016, all previously issued Series A was converted to common stock. In 2014, we issued an aggregate of 414,500 warrants to purchase Series A preferred stock for services rendered and a debt obligation, with exercise prices ranging from \$0.50 to \$1.50 per share, expiring three years from the date of issuance. In 2015, we issued an aggregate of 705,000 warrants to purchase Series A preferred stock for services rendered, with exercise prices ranging from \$0.50 to \$1.50 per share, expiring three years from the date of issuance. In 2016, we issued an aggregate of warrants to purchase 40,000 shares of Series A preferred stock for services rendered, with exercise price of \$1.50 per share, expiring three years from the date of issuance.

In connection with entering into the Progress Advocates LLC joint venture with LSH, LLC, we issued to LSH, LLC two five-year warrants to purchase an aggregate of 1,500,000 shares of Series A convertible preferred stock at an exercise price of \$0.50 per share. The first warrant for 1,000,000 shares preferred stock vests and becomes exercisable 25% upon issuance and the balance upon the achievement by Progress Advocates of specific increasing revenue goals. As of December 30, 2015, these revenue goals have been achieved and these warrants have vested. The second warrant for 500,000 shares of preferred stock vests and becomes exercisable when Progress Advocates achieves at least \$1,000,000 in cumulative "operating income." A third five year warrant to purchase 500,000 shares of Series A preferred stock was issued in October 2015 based upon Progress Advocates achievement of six months of positive operating income.

Delaware law also could make it more difficult for a third party to acquire us. Specifically, Section 203 of the Delaware General Corporation Law may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

Risks Related to Our Industry

The ability of our solution's clients to recover and enforce defaulted consumer debt may be limited under federal, state, local and foreign laws, which would negatively impact our revenues.

Federal, state, local and foreign laws may limit our creditor clients' ability to recover and enforce defaulted consumer debt. Additional consumer protection and privacy protection laws may be enacted that would impose additional requirements on the enforcement and collection of consumer debt. The Consumer Financial Protection Bureau is actively looking at the debt collection industry for new regulation. Any new laws, rules or regulations that may be adopted, as well as existing consumer protection and privacy protection laws, may adversely affect our ability to settle defaulted consumer debt accounts on behalf of our clients and could result in decreased revenues to us. We cannot predict if or how any future legislation would impact our business or our clients. In addition, we cannot predict how foreign laws will impact our ability to expand our business internationally or the cost of such expansion. Our failure to comply with any current or future applicable laws or regulations could limit our ability to settle defaulted consumer debt claims on behalf of our clients, which could adversely affect our revenues.

Changes in Federal laws and regulations may limit Student Loan Care LLC's ability to offer document preparation services for the modification and consolidation of U.S. student loans. We cannot predict if the current government programs allowing these modifications will continue to be offered by the U.S. Department of Education in similar form or substance to the current offering upon which Student Loan Care offers its services.

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Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses, which as a smaller public company may be disproportionately high.

Changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for small capitalization companies like us. These new and changing laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations and standards will likely result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

A poor performance by the economy may adversely impact our business.

When economic conditions deteriorated, more borrowers became delinquent on their consumer debt. However, while volumes of debt to settle have risen, borrowers have less ability in a downturn to make payment arrangements to pay their delinquent or defaulted debt. As a result, our Debt Resolve service revenues may decline, or it may be more costly to generate the same revenue levels, resulting in reduced earnings. In addition, a poor economy would put pressure on our Student Loan Care and Progress Advocates clients to maintain monthly financing payments. Thus, potentially increasing Accounts Receivable bad debt expense.

Risks Related to our Common Stock

The daily trading volume of our stock varies widely.

The daily volume in our stock varies widely and is often limited. At this time, it is not possible to liquidate a significant position in a relatively short time period. In addition, because we are not traded on a national exchange, there may be additional restrictions on the purchase or sale of our common stock.

Our stock price may exhibit a high degree of volatility.

Because our stock is traded with relatively low volume, the price can move significantly on small trading volumes. The release of positive news would be expected to move our stock price up, but we have large illiquid blocks discussed above that sell into any upward momentum. These blocks exert a downward influence or may place a temporary or long-term cap on our stock price appreciation. Over time, we would expect these blocks to be broadly sold into the market, increasing our shareholder base and trading volume and mitigating the effect of these blocks over time. While we currently do not provide sales or earnings guidance as some larger companies do, we may do so in the future, and our stock price reaction may be volatile depending on our revenue and earnings performance relative to the guidance.

All of our assets are subject to liens as security for indebtedness under our series D convertible notes.

All of our assets now owned or hereafter acquired, and all proceeds therefrom, including accounts receivable and technology, are subject to liens in favor of certain investors who purchased our series D convertible notes (see Note 9 to our Notes to Financial Statements). If we were unable to service the obligations, the lien holders could foreclose on the assets that serve as collateral. As a result, following an event of default under these obligations and enforcement against the collateral, the lien holders will be entitled to be repaid in full from the proceeds of all the pledged assets owned by us now or hereafter acquired securing the obligations owed to them before any payment is made to the holders of our common stock from the proceeds of that collateral. Additionally, the holders of the liens will receive all proceeds from any realization on the collateral or from the collateral or proceeds thereof in any insolvency proceeding, until the obligations secured by the liens are paid in full.

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ITEM 1B. Unresolved Staff Comments

Not applicable

ITEM 2. Properties

We currently occupy office space at 1133 Westchester Avenue, Suite S-223, White Plains, NY 10604, under a short term lease with an unaffiliated third party at a monthly rate of \$3,500.

ITEM 3. Legal Proceedings

Lawsuits from Noteholders

On April 11, 2016, a Decision was entered in the matter of a noteholder's claim 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. A stipulation with respect to damages was entered by the Court on August 29, 2016 providing that the total outstanding principal and interest due the noteholder as of July 31, 2016 is \$322,152. The noteholder is seeking an award of his attorneys' fees from the Court. No decision has been rendered by the Court with respect to noteholder's attorneys' fee claim.

Lawsuits from vendors

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 that was available, both from Progress Advocates and its vendors. Additional information has been provided subsequent to the Company's initial response. We are confident that our compliance with payments aligned to the consumer's receipt of benefit and our vendor's responsible marketing has been accurately demonstrated in the information provided.

ITEM 4. Mine Safety Disclosures

Not applicable

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Our shares of common stock are quoted on the OTC marketplace under the symbol DRSV.

The following table sets forth the high and low closing prices for our common stock for the periods indicated as reported on the OTC Pink marketplace from January 1, 2015 to present:

Quarter	Year ended December 31,			
	2016		2015	
	High	Low	High	Low
First	\$ 0.0295	\$ 0.009	\$ 0.01	\$ 0.005
Second	\$ 0.03	\$ 0.01	\$ 0.01	\$ 0.004
Third	\$ 0.069	\$ 0.01	\$ 0.06	\$ 0.004
Fourth	\$ 0.0239	\$ 0.008	\$ 0.06	\$ 0.008

As of April 17, 2017, there were approximately 2,000 record holders of our common stock. We believe that a significant number of beneficial owners of our common stock hold shares in "nominee" or "street" name.

Dividends

We have not paid to date, nor do we expect to pay in the future, a dividend on our common stock. The payment of dividends on our common stock is within the discretion of our board of directors, subject to our certificate of incorporation. We intend to retain any earnings for use in our operations and the expansion of our business. Payment of dividends in the future will depend on our future earnings, future capital needs and our operating and financial condition, among other factors.

Recent Sales of Unregistered Securities

None

Purchases of Equity Securities

We did not repurchase any shares of our common stock in the fourth quarter of the year ended December 31, 2016.

ITEM 6. Selected Financial Data

Not applicable

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included in this report. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

The year 2016 was a tale of two half years. As previously mentioned, in February of 2016, we suspended sales and marketing by our majority owned subsidiary Progress Advocates LLC. Given the market opportunity in the Federal Student loan document preparation, we realized the business model being followed by our minority partner (and Progress Advocates operator) was flawed and unprofitable. Consequently, we found a new partner who shared our vision for developing a high growth and profitable company in this space. This new majority owned company, Student loan Care LLC, started operations on June 1, 2016. The suspension of sales at Progress Advocates in February and the opening of Student Loan Care in June, significantly reduced the Company's revenue in the months of March through May (see revenue chart below).

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In addition, the benefit of changing the business model with lower customer acquisition costs and streamlined document preparation processing costs has already been demonstrated in our first seven months of operations (see operating income chart below). Our majority owned subsidiary, Student Loan Care LLC, posted an operating income in the last five months of 2016.

Further, our ability to run our business has been greatly enhanced by the Student loan Care operating results. As can be seen from our Consolidated Statement of Cash Flows (F-7), in the year ending December 31, 2016, we had a net increase in cash/cash equivalents of \$562,621. And we reduced our reliance on debt funding in the year ending December 31, 2016 to \$635,781 as compared to \$1,010,393 in the year ending December 31, 2015.

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Results of Operations for the Years Ended December 31, 2016 and December 31, 2015

Revenues

Revenues totaled \$4,434,770 and \$5,713,905 for the years ended December 31, 2016 and 2015, respectively. We earned revenue during the year ended December 31, 2016 and 2015 primarily providing student loan document preparation services and in our core business as a percent of debt clients' collected, on a fee per settlement and on a flat monthly fee basis. The decreased revenue mainly resulted from the February 2016 suspension of sales at our majority owned subsidiary, Progress Advocates LLC. This resulted in revenue from Progress Advocates of \$1,169,847 for the year ended December 31, 2016 as compared to \$5,593,182 for the same period last year. To offset this revenue loss, our majority owned subsidiary, Student Loan Care LLC started offering services on June 1, 2016 and had revenues of \$3,186,594 in the year ended December 31, 2016.

Operating Expenses

Payroll and related expenses. Payroll and related expenses amounted to \$1,798,871 for the year ended December 31, 2016, as compared to \$2,076,220 for the year ended December 31, 2015, a decrease of \$277,349. The decrease mainly resulted from the Progress Advocates reduction of \$1,439,917, net of an increase in Student Loan Care LLC of \$1,105,206.

Selling and marketing expenses. Selling and marketing expenses decreased from \$2,036,727 in 2015 to \$640,395 in 2016. The significant decrease is due to the reduction in sales and marketing activities of Progressive Advocates, Inc., our majority owned subsidiary and the new lower cost marketing model employed by Student Loan Care LLC, our second majority owned subsidiary which commenced operations June 1, 2016.

General and administrative expenses. General and administrative expenses amounted to \$2,473,739 for the year ended December 31, 2016, as compared to \$2,014,604 for the year ended December 31, 2015, an increase of \$459,135. Service fees were \$294,846 and \$259,854 for the year ended December 31, 2016 and 2015, respectively, the increase being primarily attributable to cash paid consulting fees. Occupancy expense was \$145,523 and \$111,719 for the years ended December 31, 2016 and 2015, respectively. The increase is primarily due to facilities of Student Loan Care. Telecommunications expense was \$70,593 and \$41,562 for the year ended December 31, 2016 and 2015, respectively. Accounting expenses decreased to \$76,000 for the year ended December 31, 2016 from \$232,844 for the year ended December 31, 2015. We had additional accounting services and billings received in 2015 to become current in our SEC reporting. Travel, insurance and legal expense were \$25,510, \$67,281 and \$83,707 in the year ended December 31, 2016 compared with \$19,729, \$50,616 and \$48,458 in the year ended December 31, 2015. In

addition, we incurred an aggregate of \$1,415,029 for current bad debt charges and allowances for future Accounts Receivable bad debt relating to the student loan document preparation services in 2016 as compared to \$932,506 in 2015 which also included current bad debt and an allowance for future bad debt.

Gain on change in fair value of derivative liabilities. During the year ended December 31, 2016 and 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. In addition, in 2016, we issued convertible notes with embedded conversion features. 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 year ended December 31, 2016 and 2015, we recorded a gain on change in fair value of these derivative liabilities of \$30,317 and \$381,968, respectively. On December 22, 2015, upon increasing our number of authorized common shares, the fair value of the derivative liability was reclassified to equity and on August 17, 2016, we modified our previously issued notes payable to eliminate the embedded derivative.

Gain on settlement of debt. For the year ended December 31, 2015, we settled outstanding accounts payable for less than the recorded liability. As such, we reported a gain of \$650,319 for the year ended December 31, 2015.

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Interest Expense. We recorded financing expenses of \$1,159,019 for the year ended December 31, 2016 compared to interest expenses of \$1,666,238 for the year ended December 31, 2015. Interest expenses decreased primarily due to the factoring agreement we have with our student loan document preparation receivables in 2015 and 2016 with our majority owned subsidiary, Progressive Advocates and in 2016 with both Progress Advocates and another majority owned subsidiary, Student Loan Care LLC.

Amortization of deferred debt discount. Amortization expense of \$259,037 and \$95,428 was incurred for the year ended December 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 additional (newer) notes issued in 2015 and 2016.

Liquidity and Capital Resources

As of December 31, 2016, we had a working capital deficiency (total current liabilities exceeded total current assets) in the amount of \$10,955,052 and cash and cash equivalents totaling \$593,101. We reported a net loss attributable to Debt Resolve, Inc. of \$1,778,178 for the year ended December 31, 2016. Net cash used in operating activities was \$3,775,802 for the year ended December 31, 2016. Cash flow provided by financing activities was \$4,338,423 for the year ended December 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 may not be sufficient to fund our plan of operations for the next year.

We have raised capital for our day-to-day operations since our inception through year end 2016; 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. 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 insolvency. 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 and sustainable revenue. Unless our revenue grows quickly, it may not be possible to demonstrate the progress investors require to secure additional funding. Our Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

A discussion on current loan defaults is included in included in Note 9 to the Financial Statements, titled "Convertible Notes".

Off-Balance Sheet Arrangements

As of April 17, 2017, we have not entered into any transactions with unconsolidated entities in which we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities or any other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market risk or credit risk support.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2016 and 2015. We cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

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:

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Accounts Receivable

We extend credit to large, mid-size and small companies for collection services. We did not have a concentration in receivables in 2016 or 2015. We do not generally require collateral or other security to support customer receivables. Accounts receivable are carried at their estimated collectible amounts. Accounts receivable are periodically evaluated for collectability and the allowance for doubtful accounts is adjusted accordingly. Management determines collectability based on their experience and knowledge of the customers. As of December 31, 2016 and 2015, allowance for doubtful accounts was \$1,622,208 and \$600,000, respectively.

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 December 31, 2016 and 2015, we did not have any derivative instruments that were designated as hedges.

At December 31, 2014 and through December 22, 2015, we had the possibility of exceeding our common shares authorized when considering the number of possible shares that may be issuable to satisfy settlement provisions for all existing instruments that could be settled in shares.

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.

We account for equity awards to non-employees at fair value on the date of grant. Equity awards to non-employees are subject to periodic revaluation until the completion of any requisite performance requirements in accordance with ASC 505-50.

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 of our other significant financial assets, financial liabilities and equity instruments 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.

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.

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Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed and is determined based on the lowest level input that is significant to the fair value measurement.

As of December 31, 2016 or 2015, we did not have any items that would be classified as level 1 or 2 disclosures. The Company recognized its derivative liabilities as level 3 and values its derivatives using the methods discussed in note 10. While we believe that our 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 in Note 9 to the financial statements are that of volatility and market price of our underlying common stock.

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, we postpone 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 we have substantially accomplished the agreed-upon deliverables to be entitled to payment by the client. For most current active Debt Resolve clients, these deliverables consist of the successful collection of past due debts using our system and/or, for clients under a flat fee arrangement, the successful availability of our system for their customers.

Revenues for the preparation of student loan documentation are earned when we have 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. We may sell our products separately or in various bundles that include multiple elements such as the initial application completion and acceptance as well as ongoing assistance to maintain program compliance.

We also earn revenue from collection agencies, healthcare providers 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. 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.

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Payment Resolution Systems, our 51% owned subsidiary, works as an extended business office to medical groups around the U.S. Revenue is earned in this business by the online negotiations and collection of group's accounts receivable and paid via a service fee.

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.

We defer any revenue for which the product or service has not been delivered or is subject to refund until such time that we and the customer jointly determine that the product has been delivered or no refund will be required. At December 31, 2016 and 2015, the Company had deferred revenues of \$1,442,949 and \$1,260,137, respectively.

Recently-Issued 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 have a material impact on our financial position, results of operations or cash flows. Refer to page F-13 in Our Consolidated Financial Statements for details regarding recent accounting pronouncements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

ITEM 8. Financial Statements and Supplementary Data

Our audited financial statements for the years ended December 31, 2016 and 2015 are included as a separate section of this report beginning on page F-1.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended, or Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and acting Chief Financial Officer (Principal Financial Officer), which are the same person, to allow timely decisions regarding required disclosure. During the fourth quarter ended December 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the acting Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13(a)-15(e) under the Exchange Act. Based on this evaluation, because of our limited resources and limited number of employees, management concluded that our disclosure controls and procedures were ineffective as of December 31, 2016.

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of our financial statements in accordance with U.S. generally accepted accounting principles, or GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

With the participation of our Principal Executive Officer and Principal Financial Officer, currently the same person, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as defined under Rule 13a-15, as of December 31, 2016 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on our evaluation and the material weaknesses described below, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2016, based on the COSO framework criteria. Management has identified the major control deficiencies as the lack of segregation of duties and limited accounting knowledge of our debt and equity transactions. Our management believes that these material weaknesses are due to the small size of our accounting staff. The small size of our accounting staff may prevent adequate controls in the future, such as segregation of duties, due to the high cost of such remediation relative the benefit expected to be derived thereby.

To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of external legal and accounting professionals. As we grow, we expect to increase our number of employees, which will enable us to implement adequate segregation of duties within the internal control framework. These control deficiencies could result in a misstatement of account balances that would result in a reasonable possibility that a material misstatement to our consolidated financial statements may not be prevented or detected on a timely basis. Accordingly, we have determined that these control deficiencies as described above together constitute a material weakness.

In light of this material weakness, we performed additional analyses and procedures in order to conclude that our consolidated financial statements for the year ended December 31, 2016 included in this Annual Report on Form 10-K were fairly stated in accordance with U.S. GAAP. Accordingly, management believes that, despite our material weaknesses, our financial statements for the year ended December 31, 2016 are fairly stated, in all material respects, in accordance with U.S. GAAP.

This report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not required to attestation by our registered public accounting firm under section 404(a) of the Sarbanes-Oxley Act.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Principal Executive Officer and Principal Financial Officer, which are the same person, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Controls

During the fourth quarter ended December 31, 2016, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

ITEM 9B. Other Information

None

Table of Contents**PART III.****ITEM 10. Directors, Executive Officers and Corporate Governance**

The following table shows the positions held by our board of directors and executive officers, as well as a key employee, and their ages, as of April 17, 2017:

Name	Age	Position
Bruce E. Bellmare	68	Chief Executive Officer, Acting Chief Financial Officer, and Director
William M. Mooney, Jr.	77	Chairman of Board
James G. Brakke	74	Director
Gary T. Martin	71	Director
Raymond A. Conta	46	Director
Stanley E. Freimuth	70	Director
Rene A. Samson	38	Vice President -Technology

The principal occupations for the past five years (and, in some instances, for prior years) of each of our directors and executive officers are as follows:

Bruce E. Bellmare has been our Chief Executive Officer, Acting Chief Financial Officer and Director since May 2016. Mr. Bellmare has been an outside consultant to the Company since 2014, prior to joining the Company in February 2016 as Chief Operating Officer. Mr. Bellmare previously served as a Principal of Opus Advisory Group, an integrated financial consulting company, where he provided financial consulting to corporate executives and small business owners, from 2007 to 2015. He served as the Chief Financial Officer of The Pirro Group, a provider of legal and consulting services, from 2002 to 2007. Prior to this, Mr. Bellmare had been a senior technology executive for over 25 years. Including management positions with IBM, NYNEX, Data Switch and the Prodigy Communications Corp., a start-up joint venture between CBS, IBM and Sears, Roebuck, where he served as the Director of Commercial Marketing from 1984 to 1991 in connection with the original design and launch of its Prodigy online service. Mr. Bellmare's background in finance and corporate development of FinTech companies qualifies him to be a director.

William M. Mooney, Jr. has been a member of our board of directors since April 2003 and our Chairman since April 1, 2014. Mr. Mooney is currently CEO of The Westchester County Association. Mr. Mooney has been involved in the banking sector in an executive capacity for more than 30 years. Prior to joining Independence Community Bank, he served for four years as an Executive Vice President and member of the management committee of Union State Bank, responsible for retail banking, branch banking and all marketing activity. Mr. Mooney also spent 23 years at Chemical Bank and, following its merger with Chase Manhattan Bank, he was a Senior Vice President with responsibilities

including oversight of all retail business. He also held the position of Chairman for the Westchester County Association, past Chairman of the United Way Westchester and Chairman of St. Thomas Aquinas College. He has served on the board of trustees for New York Medical College, St. Agnes Hospital, the Board of Dominican Sisters and the Hispanic Chamber of Commerce. Mr. Mooney received a B.A. degree in business administration from Manhattan College. He also attended the Harvard Management Program and the Darden Graduate School at the University of Virginia. Mr. Mooney's background in banking and finance qualifies him to be a director.

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James G. Brakke has been a member of our board of directors since October 2009. Mr. Brakke was our Chairman and Chief Executive Officer from April 2010 through June 2012 and remained as Chairman through March 31, 2014. Mr. Brakke is a Vice Chairman of the Ronald Reagan Presidential Foundation Advisory Council, Director at First Foundation Bank, First Foundation Advisors, Mission Hospital Foundation and Maury Microwave Corp. and Chairman of Life Vessel & Advanced Wellness. Mr. Brakke was Founder and President until 2009 of Brakke-Schafnitz Insurance Brokers, a multi-line commercial brokerage and consulting firm he co-founded in 1971 managing in excess of \$250 million of insurance premiums with both domestic and international insurers. He is a former member of the board of advisors for Pepperdine University's Graziadio School of Business, Orange County Sheriffs and the Orange County YMCA and has served as director on the boards of Denticare, Pacific National Bank, Commercial Capital Bank, The Busch Firm, National Health Care Services and E-Funds. Mr. Brakke is a graduate of Colorado State University with a B.S. degree in Business and Finance. Mr. Brakke's background in insurance and corporate governance qualifies him to be a director.

Gary T. Martin has been a member of our board of directors since June 2012. Mr. Martin has been the Chief Executive Officer of Encore Supply Strategies since 2010. Encore provides consulting services to customers of Procter & Gamble who license Procter & Gamble's proprietary supply chain intellectual property. Mr. Martin is also President of Adventure Leisure Properties Ltd., a Florida-based company operating a recreational investment property in New Zealand since 2002. Mr. Martin is also President of a small startup company, LYNX Technology Limited, located in Ontario, Canada, which has been developing proprietary exploratory mining equipment since 2010. Previously, Mr. Martin was an executive with Procter & Gamble for 33 years. Mr. Martin was President of Procter & Gamble's worldwide family care business from 1999 until his retirement in 2001. Previously, from 1991 to 1999, he was Senior Vice President of the company's supply system with responsibility for worldwide purchasing, engineering, manufacturing and customer service/distribution. In this capacity, Mr. Martin was responsible for managing the company's capital spending, the production of all its products and 65,000 employees. Additionally, for a time, he was also the Chief Information Officer of the company. Mr. Martin's executive experience qualifies him to be a director.

Raymond A. Conta has been a member of our board of directors since 2014. Mr. Conta is an entrepreneur in Westchester County, NY. He owns Advanced Billing Services, Inc., a business that he started in 1999. He also owns other affiliated businesses. Mr. Conta serves on the board of The Children's Hospital Research Foundation located in Westchester County. Mr. Conta has a B.A. degree from Hamilton College in 1992 and a J.D. from Pace University in 1995. Mr. Conta's experience in the debt buying and debt collection industries qualifies him to be a director.

Stanley E. Freimuth was our Chief Executive Officer, Acting Chief Financial Officer and Director from March 2014 to May 2016. Mr. Freimuth has a long and successful track record of growing and transforming both B2B and B2C companies. Mr. Freimuth was Chairman, President and CEO of Presstek, Inc., a publically traded digital printing equipment manufacturer, bringing the company back to financial stability and negotiating its sale to a private equity buyer. Before Presstek, Mr. Freimuth is currently, Chairman and Executive Director of Tracer Imaging, a specialty B2B and B2C lenticular and 3D printing company where he helped launch an innovative consumer-facing product. Until 2007, Mr. Freimuth was the senior U.S. executive at Fujifilm USA, Inc., which he led to record revenues through a period of major technological transition in most of its core businesses. Mr. Freimuth's background in executive management qualifies him to be a director.

All directors hold office until the next annual meeting of stockholders (when scheduled) and the election and qualification of their successors. Officers are elected annually by our board of directors and serve at the discretion of the board, subject to their contracts.

Key Employee

René A. Samson has been our Vice President of Technology since July 2009. Mr. Samson has worked as a software developer for more than 10 years. He has experience working on projects for multinationals as well as startup companies. Mr. Samson joined our company as a senior software developer in 2005, and was an integral part of the team that developed the original Debt Resolve solutions. As Vice President of Technology, Mr. Samson is now responsible for the entire IT department of Debt Resolve.

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Additional Information about our Board and its Committees

While our securities are not currently traded on a national securities exchange, we continue to monitor the rules and regulations of the SEC regarding "independent" directors. William M. Mooney, Jr., James G. Brakke, Mr. Stanley E. Freimuth and Raymond A. Conta are "independent" as defined by New York Stock Exchange rules.

During 2016, all of our directors attended at least 75% of all meetings during the periods for which they served on our board, and all of the meetings held by committees of the board on which they serve. The board of directors has formed an audit committee, compensation committee and a nominations and governance committee, all of which operate under written charters. The charters for the audit committee, the compensation committee, and the nominations and governance committee were included as exhibits to our registration statement filed with the SEC on September 30, 2005.

Committees of the Board

Audit Committee. In September 2004, we established an audit committee of the board of directors which, as of December 31, 2016, consisted of only William M. Mooney, Jr., an independent director. The audit committee's duties, which are specified in our Audit Committee Charter, include, but are not limited to:

- reviewing and discussing with management and the independent accountants our annual and quarterly financial statements,
- directly appointing, compensating, retaining, and overseeing the work of the independent auditor,
- approving, in advance, the provision by the independent auditor of all audit and permissible non-audit services,
- establishing procedures for the receipt, retention, and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters,
- the right to engage and obtain assistance from outside legal and other advisors as the audit committee deems necessary to carry out its duties,
-

the right to receive appropriate funding, as needed, from the company to compensate the independent auditor and any outside advisors engaged by the committee and to pay the ordinary administrative expenses of the audit committee that are necessary or appropriate to carrying out its duties, and

- reviewing and approving of all related party transactions unless the task is assigned to a comparable committee or group of independent directors.

Compensation Committee. In May 2004, we established a compensation committee of the board of directors which, as of December 31, 2016, consisted of only Mr. Mooney, an independent director. The compensation committee reviews and approves our salary and benefits policies, including compensation of executive officers. The compensation committee also administers our incentive compensation plan, and recommends and approves grants of stock options and restricted stock grants under that plan.

Nominations and Governance Committee. In June 2005, we established a nominations and governance committee of the board of directors which, as of December 31, 2016, consisted of only Mr. Mooney, an independent director. This committee meets at least once annually. The purpose of the nominations and governance committee is to select, or recommend for our entire board's selection, the individuals to stand for election as directors at the annual meeting of stockholders and to oversee the selection and composition of committees of our board. The nominations and governance committee's duties, which are specified in our Nominations and Governance Committee Charter, include, but are not limited to:

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- establishing criteria for the selection of new directors,
- considering stockholder proposals of director nominations,
- committee selection and composition,
- considering the adequacy of our corporate governance,
- overseeing and approving management continuity planning process, and
- reporting regularly to the board with respect to the committee's duties.

Financial Experts on Audit Committee

The audit committee will at all times be composed exclusively of "independent directors" who are "financially literate." "Financially literate" is defined as being able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement.

The committee has, and will continue to have, at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background that results in the individual's financial sophistication. The board of directors believes that Mr. Mooney satisfies the definition of financial sophistication and also qualifies as an "audit committee financial expert," as defined under rules and regulations of the SEC.

Indebtedness of Directors and Executive Officers

None of our directors or executive officers or their respective associates or affiliates is indebted to us.

There are no family relationships among our directors and executive officers.

Legal Proceedings

As of December 31, 2016, there was no material proceeding to which any of our directors, executive officers, affiliates or stockholders is a party adverse to us.

Code of Ethics

In May 2003, we adopted a Code of Ethics and Business Conduct that applies to all of our executive officers, directors and employees. The Code of Ethics and Business Conduct codifies the business and ethical principles that govern all aspects of our business. Our Code of Ethics and Business Conduct is posted on our website at <http://www.debtresolve.com> and we will provide a copy without charge to any stockholder who makes a written request for a copy.

Committee Interlocks and Insider Participation

Mr. Bellmare, our CEO, is the only board member employed by our company. No director is a director of another public corporation.

Section 16(a) Beneficial Ownership Reporting Compliance

Rules adopted by the SEC under Section 16(a) of the Exchange Act, require our officers and directors, and persons who own more than 10% of the issued and outstanding shares of our equity securities, to file reports of their ownership, and changes in ownership, of such securities with the SEC on Forms 3, 4 or 5, as appropriate. Such persons are required by the regulations of the SEC to furnish us with copies of all forms they file pursuant to Section 16(a).

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to us during our most recent fiscal year, and any written representations provided to us, we believe that all of the officers, directors, and owners of more than 10% of the outstanding shares of our common stock did comply with Section 16(a) of the Exchange Act for the year ended December 31, 2016.

Table of Contents**ITEM 11. Executive Compensation****Summary Compensation Table**

The following table sets forth, for the most recent fiscal year, all cash compensation paid, distributed or accrued, including salary and bonus amounts, for services rendered to us by our Chief Executive Officer, who also serves as our principal financial and accounting officer, and one other executive officer in such year who received or are entitled to receive remuneration in excess of \$100,000 during the stated period and any individuals for whom disclosure would have been made in this table but for the fact that the individual was not serving as an executive officer as at December 31, 2016:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	All Non-Equity Non-qualified Incentive Deferred Plan Compensation Earnings Compensation			Total (\$)
						(\$)	(\$)	(\$)	
Bruce E. Bellmare, CEO and acting CFO (1)	2016	170,000	-	100,000	79,999	-	-	-	349,999
	2015	-	-	-	-	-	-	-	-
Stanley E. Freimuth, Former CEO (2)	2016	78,750	-	-	-	-	-	-	78,750
	2015	210,000	-	-	-	-	-	-	210,000
Rene A. Samson, VP-Technology	2016	135,000	-	-	-	-	-	-	135,000
	2015	135,000	-	-	-	-	-	-	135,000

(1) Mr. Bellmare joined our company as a consultant and on February 1, 2016, was appointed as our Chief Operating officer. On May 15, 2016, Mr. Bellmare assumed the position as Chief Executive Officer and Acting Chief Financial Officer. Mr Bellmare was issued 5,000,000 shares of our common stock with a fair value of \$100,000 and options to purchase 2,000,000 shares of our common stock at \$0.02 per share for seven years, vesting at 1/3 each year, for three years and 2,000,000 options of our common stock at \$0.015 for seven years, vesting at 1/3 each year, for three years.

(2) Mr. Freimuth resigned May 15, 2016 as CEO.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes equity awards outstanding at December 31, 2016 for each of the executive officers named in the Summary Compensation Table above:

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Value of Shares or Units of Stock That Have Not Vested (\$)	Market Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Bruce Bellmare, CEO and acting CFO (1)	-	2,000,000	-	\$ 0.02	2/1/2023	-	-	-	-
	-	2,000,000	-	0.015	5/23/2023	-	-	-	-
Stanley E. Freimuth, Former CEO and acting CFO (2)	3,000,000	--	--	\$ 0.015	3/1/2021	--	--	--	--
Rene A. Samson, VP-Technology (3)	500,000	--	--	\$ 1.63	1/17/2019	--	--	--	--

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- (1) Mr. Bellmare holds stock options to purchase 2,000,000 shares of our common stock, vesting 1/3 each anniversary for three years and stock options to purchase 2,000,000 shares of our common stock vesting contingent on market conditions (as defined).
- (2) Mr. Freimuth holds stock options to purchase 3,000,000 shares of our common stock, all of which are vested and expire on March 1, 2021.
- (3) Mr. Samson holds options to purchase 500,000 shares of our common stock, all of which are vested and expire on January 17, 2019.

Table of Contents**Employment Agreements**

On February 1, 2016, Bruce E. Bellmare was hired as Chief Operating Officer. Details of this appointment can be found in the Company's Form 8-K filing, dated February 5, 2016. On May 15, 2016, Mr. Bellmare was appointed the Company's Chief Executive Officer. Details of this employment agreement can be found in the Company's Form 8-K filing, dated April 25, 2016.

On May 15, 2016, Stanley E. Freimuth, terminated his employment Agreement as CEO of the Company. Details of this termination agreement can be found in the Company's Form 8-K filing, dated April 25, 2016.

Director Compensation

Non-employee Director Compensation. Non-employee directors currently receive no cash compensation for serving on our board of directors other than reimbursement of all reasonable expenses for attendance at board and board committee meetings. Under our 2005 Incentive Compensation Plan, non-employee directors are entitled to receive stock options to purchase shares of common stock or restricted stock grants. The Board received no grants for 2016 service on the Board.

Employee Director Compensation. Directors who are employees of ours receive no compensation for services provided in that capacity, but are reimbursed for out-of-pocket expenses in connection with attendance at meetings of our board and its committees.

The table below summarizes the compensation we paid to non-employee directors for the fiscal year ended December 31, 2016:

Director Compensation

Name	Fees Earned or Paid in Cash	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
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(a)	(\$) (b)	(e)	(f)	(\$) (g)	(\$) (h)	(i)	(j)
Gary T. Martin	--	--	--	--	--	--	--
William M. Mooney, Jr.	--	--	--	--	--	--	--
James G. Brakke	--	--	--	--	--	--	--
Raymond A. Conta	--	--	--	--	--	--	--
Stanley E. Freimuth	--	--	--	--	--	--	--

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The table below sets forth the beneficial ownership of our common stock, as of April 17, 2017, by:

- all of our directors and executive officers, individually,
- all of our directors and executive officers, as a group, and
- all persons who beneficially owned more than 5% of our outstanding common stock.

The beneficial ownership of each person was calculated based on 121,264,809 outstanding shares of common stock as of April 17, 2017. The SEC has defined "beneficial ownership" to mean more than ownership in the usual sense. For example, a person has beneficial ownership of a share not only if he owns it in the usual sense, but also if he has the power to vote, sell or otherwise dispose of the share. Beneficial ownership also includes the number of shares that a person has the right to acquire within 60 days of April 17, 2017 pursuant to the exercise of options or warrants or the conversion of notes, debentures or other indebtedness, but excludes stock appreciation rights. Two or more persons might count as beneficial owners of the same share. Unless otherwise noted, the address of the following persons listed below is c/o Debt Resolve, Inc., 1133 Westchester Avenue, Suite S-223, White Plains, New York 10604.

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Unless otherwise indicated, we believe that all persons named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

Name	Position	Shares of stock beneficially owned	Percent of common stock beneficially owned
William M. Mooney, Jr.	Chairman of the Board	12,034,855(1)	9.9%
James G. Brakke	Director	4,417,000(2)	3.6%
Gary T. Martin	Director	62,356,300(3)	51.4%
Stanley E. Freimuth	Director	16,626,685(4)	13.8%
Raymond Conta	Director	9,500,000(5)	7.8%
Bruce E. Bellmare	CEO, Director	5,981,000(6)	4.9%
All 6 directors and executive officers as a group		110,915,840(7)	91.5%

-
- (1) Includes stock options to purchase 3,272,500 shares of common stock. Also includes warrants to purchase 2,587,500 shares of common stock. On an outstanding voting basis, Mr. Mooney owns 6,174,855 common shares which represent 5.1% of the total shares.
- (2) Includes stock options to purchase 1,700,000 shares of common stock. Also includes warrants to purchase 1,525,000 shares of common stock. On an outstanding voting basis, Mr. Brakke owns 1,192,000 common shares which represent 1.0% of the total shares.
- (3) Includes 41,700,500 warrants to purchase shares of common stock. On an outstanding voting basis, Mr. Martin owns 20,655,800 common shares which represent 17.0% of the total shares.
- (4) Includes stock options to purchase 7,750,000 shares of common stock. Also includes warrants to purchase 2,750,000 shares of common stock. On an outstanding voting basis, Mr. Freimuth owns 6,126,685 common shares which represent 5.1% of the total shares.
- (5) Includes stock options to purchase 4,750,000 shares of common stock. Also includes warrants to purchase 2,750,000 shares of common stock. On an outstanding voting basis, Mr. Conta owns 2,000,000 common shares which represents 1.6% of the total shares.
- (6) Includes stock options to purchase 666,000 shares of common stock. Also, includes preferred warrants to purchase 315,000 shares of common stock. On an outstanding voting basis, Mr. Bellmare owns 5,000,000 common shares which represents 4.1% of the total shares.

- (7) On a common stock issued and outstanding voting basis, all directors and executive officers as a group own 33.9% of the total shares.

Change in Control

There are no arrangements currently in effect which may result in our "change in control," as that term is defined by the provisions of Item 403(c) of Regulation S-K.

Equity Compensation Plan Information

The issuance of stock incentive awards for an aggregate of 900,000 shares of common stock is authorized under our 2005 Incentive Compensation Plan. As of December 31, 2016, 324,000 shares were available for issuance under our 2005 Incentive Compensation Plan, and there were outstanding stock options to purchase 576,000 shares of our common stock.

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The following table provides information as of December 31, 2016 with respect to the shares of common stock that may be issued under our existing equity compensation plan:

Equity Compensation Plan Information

Plan category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	-	\$ -	324,000
Equity compensation plans not approved by security holders	17,225,000	\$ 0.08	Unrestricted
Total	17,225,000	\$ 0.08	324,000

Defined Contribution 401(k) Plan

We maintain a defined contribution 401(k) 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. However, due to the severe cash limitations that we have experienced, the match was suspended in 2009 and will only be re-instated when business conditions warrant.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence**Related Party Transactions**

On January 25, 2015, a stockholder and Board member loaned \$25,000 (unsecured) to the Company due April 25, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On March 3, 2015, the Company issued a \$50,000 secured convertible note that matures on March 3, 2017. The note bears 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 note, the Company issued an aggregate of 750,000 warrants to purchase the Company's common stock at \$0.15 per share over three years.

On May 12, 2015, the Company issued a \$20,000 secured convertible note that matures on May 12, 2017. The note bears 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 note, the Company issued an aggregate of 300,000 warrants to purchase the Company's common stock at \$0.15 per share over three years.

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On June 18, 2015, a stockholder and Board member loaned \$25,000 (unsecured) to the Company due April 21, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On July 13, 2015, a stockholder and Board member loaned \$12,500 (unsecured) to the Company due July 12, 2016 with interest at 12% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On August 5, 2015, a stockholder and Board member loaned \$25,000 (unsecured) to the Company due January 1, 2016 with interest at 10% per annum with interest paid monthly for August and September 2015 and principal and interest payable from October through December 2015. The Company did not make payment on the maturity date; therefore the note is currently in default.

On August 19, 2015, a stockholder and Board member loaned \$50,000 (unsecured) to the Company due February 19, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On May 15, 2016, the Company issued a \$75,000 secured convertible note that matures on May 15, 2018 in settlement of accrued compensation. The note bears interest at a rate of 10% and can be convertible into shares of the Company's common stock, at a conversion rate of \$0.02 per share. Interest will also be converted into common stock at the conversion rate of \$0.02 per share. In connection with the issuance of the convertible note, the Company issued an aggregate of 2,225,000 warrants to purchase the Company's common stock at \$0.10 per share over three years.

On June 9, 2016, a stockholder loaned \$15,000 (unsecured) to the Company due June 9, 2017 with interest at 12% per annum, paid monthly beginning October 2016 and principal payments beginning April 2017.

On June 22, 2016, a stockholder and board member loaned \$30,000 (unsecured) to the Company due June 22, 2017 with interest at 12% per annum, paid monthly beginning October 2016 and principal payments beginning April 2017.

On June 30, 2016, a stockholder and board member loaned \$25,000 (unsecured) to the Company due June 30, 2017 with interest at 12% per annum, paid monthly beginning October 2016 and principal payments beginning April 2017.

On September 28, 2016, a stockholder and board member loaned \$200,000 (unsecured) to the Company due September 28, 2018 (of which \$75,000 has been repaid) with interest at the lowest permissible interest rate, due at maturity. In connection with the issuance of the note, the Company issued an aggregate of 4,000,000 shares of its common stock valued at \$64,000. The Company amortized the fair value of the common stock as a debt discount over the term of the note.

During the year ended December 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 \$122,035 and \$108,628 for the year ended December 31, 2016 and 2015, respectively.

Director Independence

William M. Mooney, Jr., James G. Brakke, Raymond A. Conta, and Stanley E. Freimuth are "independent" directors, as such term is defined in Rule 10A-3(b)(1) under the Exchange Act, and Mr. Mooney serves on each of our Audit, Compensation and Nominations and Governance Committees. See Item 10, "Directors, Executive Officers and Corporate Governance" for more information on the independence of our directors.

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ITEM 14. Principal Accountant Fees and Services

On April 22, 2015, the Company engaged Liggett & Webb, P.A. ("LW") as our independent registered public accounting firm. The aggregate fees billed to us by LW and Fiondella, Milone and LaSaracina LLP ("FML") our prior independent registered accounting firm, for services rendered during the fiscal years ended December 31, 2016 and 2015 are set forth in the below:

Audit Fees

Audit fees are those fees billed for professional services rendered for the audit of the annual financial statements and review of the financial statements included in Form 10-Q. The aggregate amount of the audit fees billed by LW in 2016 was \$56,500 and FML and LW in 2015 was \$58,050 and \$18,000, respectively.

Audit-related Fees

No audit-related fees were billed by FML and LW in 2016 or 2015.

Tax Fees

Tax fees are those fees billed for professional services rendered for tax compliance, including preparation of corporate federal and state income tax returns and related compliance. The aggregate amount of tax fees billed by LW in 2016 was \$4,400 and FML in 2015 was \$27,500.

All Other Fees

None

Audit Committee

The only member of our audit committee is Mr. Mooney. Our board of directors and audit committee approved the services rendered and fees charged by our independent auditors. The audit committee has reviewed and discussed our audited financial statements for the years ended December 31, 2016 and 2015 with our management. In addition, the audit committee has reviewed and discussed our audited financial statements for the years ended December 31, 2016 and 2015 with LW for 2016 and LW and FML for 2015, our independent registered public accountants, as required under PCAOB standards, respectively.

Based on the audit committee's review of the matters noted above and its discussions with our independent auditors and our management, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Policy for Pre-Approval of Audit and Non-Audit Services

The audit committee's policy is to pre-approve all audit services and all non-audit services that our independent auditor is permitted to perform for us under applicable federal securities regulations. As permitted by the applicable regulations, the audit committee's policy utilizes a combination of specific pre-approval on a case-by-case basis of individual engagements of the independent auditor and general pre-approval of certain categories of engagements up to predetermined dollar thresholds that are reviewed annually by the audit committee. Specific pre-approval is mandatory for the annual financial statement audit engagement, among others.

The pre-approval policy was implemented effective as of September 2004. All engagements of the independent auditor to perform any audit services and non-audit services since that date have been pre-approved by the audit committee in accordance with the pre-approval policy. The policy has not been waived in any instance. All engagements of the independent auditor to perform any audit services and non-audit services prior to the date the pre-approval policy was implemented were approved by the audit committee in accordance its normal functions.

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(a) Exhibits

Exhibit Description

No.	Description
3.1	Certificate of Incorporation. (8)
3.2	Certificate of Amendment of the Certificate of Incorporation, dated April 17, 2003. (1)
3.3	Certificate of Amendment of the Certificate of Incorporation, dated August 16, 2006. (2)
3.4	Certificate of Amendment of the Certificate of Incorporation, dated August 25, 2006. (2)
3.5	Certificate of Amendment of the Certificate of Incorporation, dated June 3, 2010. (3)
3.6	By-laws. (8)
4.1	Form of Securities Purchase Agreement to Purchase Convertible Notes and Warrants of Debt Resolve, Inc. for loans during the period June 2009 to August 2010. (5)
4.2	Form of Convertible Note of Debt Resolve, Inc. for loans during the period June 2009 to August 2010. (5)
4.3	Form of Warrant of Debt Resolve, Inc. for loans during the period June 2009 to August 2010. (5)
4.4	Form of Security Agreement of Debt Resolve, Inc. for loans during the period June 2009 to August 2010. (5)
4.5	Form of Convertible Note of Debt Resolve, Inc. for January 21, 2010 private placement. (6)
4.6	Form of Warrant to Purchase Common Stock of Debt Resolve, Inc. for January 21, 2010 private placement. (6)
4.7	Form of Security Agreement of Debt Resolve, Inc. for January 21, 2010 private placement. (6)
4.8	Form of Investor Rights Agreement of Debt Resolve, Inc. for January 21, 2010 private placement. (6)
4.9	Form of Securities Purchase Agreement to Purchase Common Stock of Debt Resolve, Inc. for August 12, 2010 private placement. (7)
4.10	Form of Warrant to Purchase Common Stock of Debt Resolve, Inc. for August 12, 2010 private placement. (7)
4.11	Form of Securities Purchase Agreement to Purchase Convertible Notes of Debt Resolve, Inc. for loans during the period February 2011. (5)
4.12	Form of Convertible Note of Debt Resolve, Inc. for loans during the period February 2011. (5)
4.13	Form of Warrant of Debt Resolve, Inc. for loans during the period February 2011. (5)
4.14	Form of Securities Purchase Agreement to Purchase Common Stock of Debt Resolve, Inc. for private placements during the period June to December 2011. (5)
4.15	Form of Warrant to Purchase Common Stock of Debt Resolve, Inc. for private placements during the period June to December 2011. (5)
4.16	Preferred Stock Purchase Warrant No. 1 issued by Debt Resolve, Inc. to LSH, LLC for 1,000,000 shares. (11)
4.17	Preferred Stock Purchase Warrant No. 2 issued by Debt Resolve, Inc. to LSH, LLC for 500,000 shares. (11)
10.1	Client contract with Customer A constituting greater than 10% of revenue. (5)
10.2	Client contract with Customer B constituting greater than 10% of revenue. (5)
10.3	Employment Agreement, effective March 1, 2014, between Debt Resolve, Inc. and Stanley E. Freimuth. (6)

- 10.4 Consulting Agreement, dated March 25, 2014, between Debt Resolve, Inc. and RC Healthcare Consulting, LLC. (7)
- 10.5 Line of Credit Agreement, dated January 25, 2015, and related Non-Negotiable Promissory Note. (12)

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14.1	Code of Ethics. (9)
21.1	Subsidiaries of Debt Resolve, Inc.
<u>31.1</u>	<u>Rule 13(a) -14(a) Certifications.</u>
<u>32.1</u>	<u>Section 1350 Certifications.</u>
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

-
- (1) Incorporated herein by reference to Current Report on Form 8-K, filed March 11, 2003.
 - (2) Incorporated herein by reference to Current Report on Form 8-K, filed August 31, 2006.
 - (3) Incorporated herein by reference to Information Statement on Schedule 14C, filed June 24, 2010.
 - (4) Incorporated herein by reference to Current Report on Form 8-K, filed September 5, 2007.
 - (5) Incorporated herein by reference to Annual Report on Form 10-K for the year ended December 31, 2011, filed on April 16, 2012.
 - (6) Incorporated herein by reference to Current Report on Form 8-K, filed March 6, 2013.
 - (7) Incorporated herein by reference to Current Report on Form 8-K, filed on March 27, 2014.
 - (8) Incorporated herein by reference to Registration Statement on Form SB (File no. 000-29525) of Lombardia Acquisition Corp., filed February 15, 2000.
 - (9) Incorporated herein by reference to Registration Statement on Form SB-2 (File No. 333-128749), filed September 30, 2005.
 - (10) Incorporated herein by reference to Current Report on Form 8-K/A, filed January 9, 2012.

(11) Incorporated herein by reference to Current Report on Form 8-K, filed December 19, 2014.

(12) Incorporated herein by reference to Current Report on Form 8-K, filed January 25, 2014.

** 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

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

DEBT RESOLVE, INC.

Dated: April 17, 2017

By: */s/ Bruce E. Bellmare*
Bruce E. Bellmare
Chief Executive Officer and Acting
Chief Financial Officer
(principal executive officer and principal
financial
and accounting officer)

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.

Signature	Title	Date
<i>/s/ Bruce E. Bellmare</i> Bruce E. Bellmare	Chief Executive Officer and Acting Chief Financial Officer (principal executive officer and principal financial and accounting officer) and Director	April 17, 2017
<i>/s/ James G. Brakke</i> James G. Brakke	Director	April 17, 2017
<i>/s/ William M. Mooney, Jr.</i> William M. Mooney, Jr.	Chairman of the Board	April 17, 2017
<i>/s/ Gary T. Martin</i> Gary T. Martin	Director	April 17, 2017
<i>/s/ Raymond A. Conta</i>	Director	April 17, 2017

Raymond A. Conta

/s/ Stanley E. Freimuth
Stanley E. Freimuth

Director

April 17, 2017

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DEBT RESOLVE, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015

<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2016 and 2015</u>	F-3
<u>Consolidated Statements of Operations for the Years Ended December 31, 2016 and 2015</u>	F-4
<u>Consolidated Statement of Shareholders' Deficiency for the Two Years Ended December 31, 2016</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015</u>	F-7
<u>Notes to the Consolidated Financial Statements</u>	F-8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Debt Resolve, Inc.

We have audited the accompanying consolidated balance sheets of Debt Resolve, Inc. (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders’ deficiency and cash flows for the years then ended. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses from operations and has negative working capital and is in default on certain debt obligations as of December 31, 2016, which raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are described in Note 3. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Liggett & Webb, P.A.

New York, New York

April 17, 2017

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DEBT RESOLVE, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash	\$ 593,101	\$ 30,480
Accounts receivable, net	3,913,945	954,588
Prepaid expenses	33,054	36,893
Total current assets	4,540,100	1,021,961
Long term assets:		
Accounts receivable, net	3,060,190	2,508,573
Total assets	\$ 7,600,290	\$ 3,530,534

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,178,384	\$ 3,480,580
Due to shareholders	303,721	242,741
Deferred revenue	1,442,949	1,260,137
Due to factor	6,162,722	2,442,935
Notes payable, current portion	686,083	536,132
Notes payable-related party, net of unamortized discount of \$47,598 and \$6,105 as of December 31, 2016 and 2015, respectively	828,123	789,616
Convertible Short-term notes, net of deferred debt discount of \$39,667 and \$23,410 as of December 31, 2016 and 2015, respectively	1,433,833	2,034,590
Lines of credit, related parties	459,337	548,893
Total current liabilities	15,495,152	11,335,624
Long term debt:		
Notes payable, related party, net of unamortized debt discount of \$51,370 and \$3,450 as of December 31, 2016 and 2015, respectively	278,630	136,550
Convertible long-term notes, net of deferred debt discount of \$162,841 and \$73,244 as of December 31, 2016 and 2015, respectively	1,113,659	251,756
Total liabilities	16,887,441	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 December 31, 2016 and 2015	-	-
Common stock, \$0.001 par value, 500,000,000 shares authorized; 121,264,809 and 104,612,082 shares issued and outstanding as of December 31, 2016 and 2015, respectively	121,265	104,612
Additional paid in capital	67,736,961	66,916,656

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Accumulated deficit	(76,585,871)	(74,807,693)
Stockholders' deficiency attributable to Debt Resolve, Inc.	(8,727,645)	(7,786,425)
Non-controlling interest	(559,506)	(406,971)
Total stockholders' deficiency	(9,287,151)	(8,193,396)
Total liabilities and stockholders' deficiency	\$ 7,600,290	\$ 3,530,534

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

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DEBT RESOLVE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,	
	2016	2015
Revenues:	\$ 4,434,770	\$ 5,713,905
Costs and expenses:		
Payroll, payroll taxes, penalties and related expenses	1,798,871	2,076,220
Selling and marketing expenses	640,395	2,036,727
General and administrative expenses	2,473,739	2,014,604
Total costs and expenses	4,913,005	6,127,551
Loss from operations	(478,235)	(413,646)
Other income (expense):		
Gain on change in fair value of derivative liabilities	30,317	381,968
Gain on settlement of debt	-	650,319
Interest expense	(1,159,019)	(1,666,238)
Amortization of debt discounts	(259,037)	(95,428)
Total other income (expense)	(1,387,739)	(729,379)
Net loss before provision for income taxes	(1,865,974)	(1,143,025)
Income tax (benefit)	-	-
Net loss	(1,865,974)	(1,143,025)
Net loss attributable to non-controlling interest	87,796	364,598
NET LOSS ATTRIBUTABLE TO DEBT RESOLVE, INC.	\$ (1,778,178)	\$ (778,427)
Net loss per common share -basic and diluted	\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding, basic and diluted	108,273,380	99,782,356

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

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DEBT RESOLVE, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY
TWO YEARS ENDED DECEMBER 31, 2016

	Preferred stock		Common stock		Additional	Accumulated Deficit	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount	Paid In Capital			
Balance, December 31, 2014	595,000	\$ 595	98,187,082	\$ 98,187	\$ 66,620,813	\$ (74,029,266)	\$ (42,373)	\$ (7,352,044)
Preferred shares issued for payment of services	47,500	48	-	-	2,802	-	-	2,850
Common shares issued in conversion of preferred shares	(642,500)	(643)	6,425,000	6,425	(5,782)	-	-	-
Beneficial conversion feature related to convertible notes	-	-	-	-	96,705	-	-	96,705
Fair value of vesting options issued to employees for services	-	-	-	-	21,250	-	-	21,250
Fair value of common stock warrants issued for services	-	-	-	-	100,276	-	-	100,276
Fair value of preferred stock warrants issued for services	-	-	-	-	125,978	-	-	125,978
Net reclassification of common stock equivalents issued in excess of aggregate authorized	-	-	-	-	(628,457)	-	-	(628,457)

availability									
Reclassification									
of fair value of									
derivative									
liability to									
equity upon									
increase in									
authorized									
common shares	-	-	-	-	583,071	-	-	-	583,071
Net loss	-	-	-	-	-	(778,427)	(364,598)	(1,143,025)	
Balance,									
December 31,									
2015	-	\$ -	104,612,082	\$ 104,612	\$ 66,916,656	\$ (74,807,693)	\$ (406,971)	\$ (8,193,396)	

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

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DEBT RESOLVE, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY
TWO YEARS ENDED DECEMBER 31, 2016

	Preferred stock		Common stock		Additional		Non-controlling Interest	Total
	Share	Amount	Shares	Amount	Paid In Capital	Accumulated Deficit		
Balance, December 31, 2015	\$ -		104,612,082	\$ 104,612	\$ 66,916,656	\$ (74,807,693)	\$ (406,971)	\$ (8,193,396)
Common shares issued upon in conversion of notes payable and accrued interest	-	-	2,652,727	2,653	80,321	-	-	82,974
Common shares issued as officer compensation	-	-	5,000,000	5,000	95,000	-	-	100,000
Common shares issued to non-controlling interest as compensation	-	-	5,000,000	5,000	95,000	-	-	100,000
Common shares issued in connection with note payable issuance			4,000,000	4,000	60,000	-	-	64,000
Beneficial conversion feature related to convertible notes	-	-	-	-	32,082	-	-	32,082
Fair value of common stock warrants issued for services	-	-	-	-	1,860	-	-	1,860
Fair value of preferred stock warrants issued for services	-	-	-	-	6,346	-	-	6,346
Fair value of warrant modifications	-	-	-	-	43,892	-	-	43,892
	-	-	-	-	34,712	-	-	34,712

Fair value of vesting options issued to employees for services								
Reclassification of fair value of derivative liability to equity upon debt modification	-	-	-	-	327,905	-	-	327,905
Fair value of debt modifications due to loan extensions	-	-	-	-	43,187	-	-	43,187
Capital withdrawal by non-controlling interest	-	-	-	-	-	-	(64,739)	(64,739)
Net loss	-	-	-	-	-	(1,778,178)	(87,796)	(1,865,974)
Balance, December 31, 2016	-	-	121,264,809	\$ 121,265	\$ 67,736,961	\$ (76,585,871)	\$ (559,506)	\$ (9,287,151)

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

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DEBT RESOLVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,865,974)	\$ (1,143,025)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discounts	259,037	95,427
Bad debts	1,022,208	931,242
Stock based compensation	242,918	250,354
Change in fair value of derivative liability	(30,317)	(381,968)
Loss on warrant modifications	43,892	-
Loss on debt modification	43,187	-
Gain on settlement of debt	-	(650,319)
Changes in operating assets and liabilities:		
Accounts receivable	(4,533,182)	(1,922,736)
Prepaid expenses	3,839	(4,150)
Accounts payable and accrued liabilities	855,778	530,019
Deferred revenue	182,812	1,234,794
Net cash used in operating activities	(3,775,802)	(1,060,362)
CASH FLOWS FROM INVESTING ACTIVITIES:		
	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from factor	3,719,787	-
Net proceeds (repayments) from shareholders	60,980	(3,421)
Distributed capital to non-controlling interest	(64,739)	-
Proceeds from short term notes	163,337	150,000
Proceeds from short term notes, related party	105,444	485,393
Repayments of short term notes	(13,386)	(41,735)
Proceeds from long term notes	367,000	375,000
Proceeds from long term notes, related party	-	70,000
Net cash provided by financing activities	4,338,423	1,035,237
Net increase (decrease) in cash and cash equivalents	562,621	(25,125)
Cash at beginning of period	30,480	55,605
Cash at end of period	\$ 593,101	\$ 30,480
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for interest	\$ 28,051	\$ 24,463
Cash paid during period for taxes	\$ -	\$ -
Non-cash financing and investing transactions:		
Beneficial conversion feature on convertible notes	\$ 32,082	\$ 96,705
Convertible notes issued for settlement of accounts payable	\$ 75,000	\$ -

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Convertible note issued for settlement of compensation	\$	75,000	\$	-
Reclassification of derivative liability to equity	\$	327,905	\$	583,071
Reclassification on non-recourse financing agreement to full recourse agreement	\$	1,128,701	\$	-
Common stock issued in settlement of convertible notes and accrued interest	\$	82,974	\$	-
Common stock issued in connection with issuance of related party notes payable	\$	64,000	\$	-

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

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DEBT RESOLVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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.

In February 2016, the Company, jointly with Patient Online Services, LLC, organized Payment Resolution Systems LLC, a Delaware limited liability company for the purpose of assisting Medical Groups and Hospitals in the online negotiation and settlement of delinquent accounts, with ownership interests of 51% and 49% for the Company and Patient Online Services, LLC, respectively.

In May 2016, the Company, jointly with Hutton Ventures LLC, organized Student Loan Care LLC, a Delaware limited liability company for the purpose of providing document preparation services for holders of Federal Direct Student Loans, with ownership interests of 51% and 49% for the Company and Hutton Ventures LLC, respectively.

The Company operates Payment Resolution Systems within Debt Resolve, Inc., whereas Progress Advocates LLC and Student Loan Care LLC operate as independent subsidiaries.

The Company operates as one operating segment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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.

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.

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 upfront fees, monitoring and other services.

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DEBT RESOLVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

The Company also earns revenue from collection agencies, healthcare providers 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.

Payment Resolution Systems, the Company's 51% owned subsidiary, works as an extended business office to medical groups around the U.S. Revenue is earned in this business by the online negotiations and collection of group's accounts receivable and paid via a service fee.

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 December 31, 2016 and 2015, the Company had deferred revenues of \$1,442,949 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's financial instruments that are exposed to a concentration of credit risk are cash and accounts receivable.

Generally, the Company's cash and cash equivalents in non-interest-bearing accounts may exceed FDIC insurance limits. The financial stability of these institutions is periodically reviewed by senior management.

The Company extends credit to large, mid-size and small companies for collection services. The Company did not have a concentration in receivables in 2016 or 2015. The Company does not generally require collateral or other security to support customer receivables. Accounts receivable are carried at their estimated collectible amounts. Accounts receivable are periodically evaluated for collectability and the allowance for doubtful accounts is adjusted accordingly. Management determines collectability based on their experience and knowledge of the customers. As of December 31, 2016 and 2015, allowance for doubtful accounts was \$1,622,208 and \$600,000, respectively.

The Company has no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements.

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DEBT RESOLVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Cash and Cash Equivalents

For purposes of the consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Fair Values

Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed and is determined based on the lowest level input that is significant to the fair value measurement.

The carrying value of the Company's cash, accounts receivable, accounts payable, short-term borrowings (including convertible notes payable), and other current assets and liabilities approximate fair value because of their short-term maturity.

As of December 31, 2016 or 2015, the Company did not have any items that would be classified as level 1 or 2 disclosures.

The Company recognized its derivative liabilities as level 3 and values its derivatives using the methods discussed in Note 10. 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 in Note 10 are that of volatility and market price of the underlying common stock of the Company.

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 5 years. Property and equipment is fully depreciated as of December 31, 2016 and 2015.

Table of Contents**DEBT RESOLVE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 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 December 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.

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

	2016	2015
Convertible notes payable	61,478,077	43,055,000
Options to purchase common stock	17,225,000	15,592,434
Warrants to purchase common stock	101,825,000	72,385,000
Warrants to purchase Series A preferred stock	25,645,000	25,245,000
Totals	206,173,077	156,277,434

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 December 31, 2016, there were outstanding stock options to purchase 17,225,000 shares of common stock, 12,075,000 shares of which were vested.

Segment Information

Accounting Standards Codification subtopic Segment Reporting 280-10 ("ASC 280-10") establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein materially represents all of the financial information related to the Company's only material principal operating segment.

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DEBT RESOLVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Long-Lived Assets

The Company follows Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment ("ASC 360-10"). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

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 December 31, 2016 and 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.

Income Taxes

Deferred income tax assets and liabilities are determined based on the estimated future tax effects of net operating loss and credit carryforwards and temporary differences between the tax basis of assets and liabilities and their respective financial reporting amounts measured at the current enacted tax rates. The Company records an estimated valuation allowance on its deferred income tax assets if it is not more likely than not that these deferred income tax assets will be realized.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As of December 31, 2016 and 2015, the Company has not recorded any unrecognized tax benefits.

The Company classifies interest expense and any related penalties related to income tax uncertainties as a component of income tax expense. No interest or penalties have been recognized during the years ended December 31, 2016 and 2015.

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Advertising Costs

The Company expenses the cost of advertising and promotional of its services when incurred. The advertising costs paid to related party were \$640,395 and \$2,036,531 for the years ended December 31, 2016 and 2015, respectively. All of which were used for the acquisition of leads for its majority owned subsidiary, Progress Advocates LLC.

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 have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 3 – GOING CONCERN AND MANAGEMENT'S LIQUIDITY PLANS

The accompanying 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 consolidated financial statements, the Company incurred a net loss of \$1,778,178 and \$778,427 for the years ended December 31, 2016 and 2015 respectively. Additionally, the Company has negative working capital (total current liabilities exceeded total current assets) of \$10,955,052 as of December 31, 2016 and is in default on certain debt obligations (see Note 8). 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 consolidated 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 December 31, 2016 and 2015, the Company's accounts receivable was \$6,974,135 and \$3,463,161, net of allowance for doubtful accounts of \$1,622,208 and \$600,000, respectively.

Table of Contents**DEBT RESOLVE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015**

The Company's majority owned subsidiaries, Progress Advocates LLC and Student Loan Care, LLC entered into factoring agreements 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 outstanding 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 agreements provide 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 agreements also provide for discount fees of 4% - 8% of the face value of any accounts receivable factored, plus additional charges for other transaction fees. The agreements may be terminated by either party at any time and will continue unless either party formally cancels.

The Company's majority owned subsidiary, Student Loan Care LLC, entered into a similar recourse factoring agreement during the second quarter of 2016. This agreement provides for the Company to receive an advance of between 45% - 90% of any accounts receivable that it factors with 45% - 5% held in reserve. The average amount received was 64% and the average amount reserved was 30%. The factoring agreement also provides for discount fees of 3% - 6% 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 December 31, 2016 and 2015, the Company's outstanding obligation under the factoring agreements was \$6,162,722 and \$2,442,935, respectively.

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2016	2015
Accounts payable	\$ 698,435	\$ 740,881

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Accrued interest	2,419,165	1,912,436
Payroll and related accruals, net of advance to employees	1,060,784	827,263
Total	\$ 4,178,384	\$ 3,480,580

During the year ended December 31, 2015, the Company settled or wrote off old outstanding accounts payable for less than the recorded liability and recognized a \$650,319 gain on old debt.

On April 19, 2016, the Company entered into a settlement agreement with the former Chief Executive officer whereby the Company issued a convertible note for \$75,000 and 2,225,000 warrants to purchase the Company's common stock at \$0.10 per share for three years as part settlement of the outstanding salary due of \$153,750. The remaining balance is to be paid monthly installments of \$2,500 to the extent of available cash flows as determined by the Board of Directors. (See Note 7)

Table of Contents**DEBT RESOLVE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****NOTE 6 – NOTES PAYABLE**

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

	2016	2015
Note payable, dated June 1, 2015, in default	41,667	45,765
Note payable, dated July 2, 2015, in default	12,500	12,500
Note payable, dated August 28, 2015, in default	32,967	50,000
Note payable, dated December 17, 2015, in default	50,000	50,000
Note payable, dated January 13, 2016, in default	50,000	-
Note payable, dated February 16, 2016, in default	25,000	-
Note payable, dated July 14, 2016	47,000	-
Equitable promissory note, dated March 1, 2016	49,082	-
Investor notes payable, 12% per annum, in default	377,867	377,867
Total	686,083	536,132
Less current portion	686,083	536,132
Long term portion	\$ -0-	\$ -0-

Notes payable

On June 1, 2015, the Company issued an unsecured note payable for \$50,000 due October 1, 2016 with interest at 12% per annum, paid monthly beginning June 2015 and principal payments beginning October 2015. The note is currently in default.

On July 2, 2015, the Company issued an unsecured note payable for \$12,500 due March 15, 2016 with interest at 10% per annum, paid monthly beginning October 2015 and principal payments beginning February 2016. The note is currently in default.

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On August 28, 2015, the Company issued an unsecured note payable for \$50,000 due February 28, 2016 with interest at 12% per annum, due at maturity. The note is currently in default.

On December 17, 2015, the Company issued an unsecured note payable for \$50,000 due December 17, 2016 with interest at 12% per annum, paid monthly beginning April 2015 and principal payments beginning October 2016. The note is currently in default.

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 note is currently in default.

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 note is currently in default.

On July 14, 2016, The Company issued a promissory note payable for \$47,000, with interest at 12% per annum, with monthly interest payments beginning November 14, 2016 and principal repayments beginning May 14, 2017.

Equitable promissory note

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.

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Investor notes payable

Investor Note 1

On December 21, 2007, an unaffiliated investor loaned the Company \$125,000 on an unsecured 18-month note with a maturity date of June 21, 2009. The note has a provision requiring repayment once the Company has 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 the Company 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, the Company 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, which has passed. This note is guaranteed by a stockholder.

On April 10, 2008, this investor loaned the Company an additional \$198,000 on an amendment of the prior unsecured note with a maturity date of June 21, 2009 for payment of the entire balance of the first note plus the amendment (\$323,000 total). In February 2010, the Company converted \$65,133 principal and \$74,867 accrued interest on the note to common stock. In August 2010, the Company repaid \$80,000 principal through partial sale of the note. As a result, the remaining balance of the amended note is \$177,867. The note carries interest at a rate of 12% per annum, with interest accruing and payable at maturity.

In conjunction with the note, the Company 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. The Company also issued 50,000 shares of common stock valued at \$122,130 in order to induce the investor to forbear on the note. This note is guaranteed by a stockholder of the Company. The note was amended and maintains the provision requiring repayment of the note upon raising gross proceeds of \$500,000 subsequent the issuance of the note. As of December 31, 2016 and 2015, this note is in default.

Investor Note 2

On December 30, 2007, an unaffiliated investor loaned the Company \$200,000 on an unsecured 18-month note with a maturity date of June 30, 2009. The note carries interest at a rate of 12% per annum, with interest accruing and payable at maturity. In conjunction with this note, the Company also issued a warrant to purchase 100,000 shares of common stock at an exercise price of \$1.00 and an expiration date of December 30, 2012, which has passed. This note is guaranteed by a stockholder. In 2015, the note holder entered into an agreement whereby their obligation was extended till October 22, 2016. The terms of the agreement included a payment of accrued interest of \$4,000, this note is in default.

NOTE 7 – NOTES PAYABLE, RELATED PARTIES

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

	2016	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

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	2016	2015
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, in default	30,000	30,000
Note payable, dated November 7, 2013	40,000	40,000
Note payable, dated December 6, 2013, in default	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	200,000	197,936
Convertible note payable, dated April 24, 2014, net of unamortized debt discount of \$-0- and \$775, respectively	25,000	24,225
Convertible note payable, dated November 7, 2014, net of unamortized debt discount of \$-0- and \$1,733, respectively	25,000	23,267
Convertible notes payable, dated December 4, 2014, net of unamortized debt discount of \$-0- and \$1,532, respectively, in default	50,000	48,468
Note payable, dated January 25, 2015, in default	25,000	25,000
Convertible note payable, dated March 3, 2015, net of unamortized debt discount of \$391 and \$2,701, respectively	49,609	47,299
Convertible note payable, dated May 12, 2015, net of unamortized debt discount of \$199 and \$750, respectively	19,801	19,250
Note payable, dated June 18, 2015, in default	25,000	25,000
Note payable, dated July 13, 2015, in default	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
Convertible note payable, dated May 15, 2016, net of unamortized debt discount of \$51,370	23,630	-
Note payable, dated June 9, 2016	15,000	-
Note payable, dated June 22, 2016	30,000	-
Note payable, dated June 30, 2016	25,000	-
Notes payable, dated September 28, 2016, net of unamortized debt discount of \$47,008	77,992	
Total	1,106,753	926,166
Less current portion	(828,123)	(789,616)

Long term portion	\$	278,630	\$	136,550
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As described in Note 8 below, On July 22, 2010, investors loaned the Company an aggregate of \$260,000 on three-year Series C Convertible Notes with an interest rate of 14%, of which \$15,000 was a related party. See Note 8 for full details.

On January 14, 2011, a stockholder loaned \$6,000 (unsecured) to the Company with a due date of June 30, 2011. The loan had been extended to December 31, 2011. The Company is currently in default. The loan carries interest at the rate of 12% per annum. The lender received a warrant to purchase 60,000 shares of the common stock of the Company at an exercise price of \$0.25 per share. The warrant has a five year exercise period. The note was recorded net of a deferred debt discount of \$2,220, based on the relative fair value of the warrant. Such discount was amortized over the original term of the note.

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DEBT RESOLVE, INC.

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On April 14, 2011, a stockholder and Board member loaned \$25,000 (unsecured) to the Company with a due date of July 31, 2011. The loan had been extended to December 31, 2011. The Company is currently in default. The loan carries interest at the rate of 12% per annum. The lender received a warrant to purchase 250,000 shares of the common stock of the Company at an exercise price of \$0.25 per share. The warrant has a five year exercise period. The Company had recorded a deferred debt discount of \$8,850 that was amortized over the original term of the debt.

On April 15, 2011, a stockholder and Board member loaned \$25,000 (unsecured) to the Company with a due date of July 31, 2011. The note had been extended to December 31, 2011. The Company is currently in default. The loan carries interest at the rate of 12% per annum. The lender received a warrant to purchase 250,000 shares of the common stock of the Company at an exercise price of \$0.25 per share. The warrant has a five year exercise period. The Company had recorded a deferred debt discount of \$8,850 that was amortized over the original term of the debt.

On January 18, 2012, a stockholder and Board member loaned \$5,000 (unsecured) to the Company with a demand due date. The loan carries interest at the rate of 12% per annum. The lender received a warrant to purchase 50,000 shares of the common stock of the Company at an exercise price of \$0.25 per share. The warrant has a five year exercise period. The note was recorded net of a deferred debt discount of \$2,495, based on the relative fair value of the warrant. Such discount was charged to operations at issuance.

On January 20, 2012, a stockholder and Board member loaned \$5,000 (unsecured) to the Company with a demand due date. The loan carries interest at the rate of 12% per annum. The lender received a warrant to purchase 50,000 shares of the common stock of the Company at an exercise price of \$0.25 per share. The warrant has a five year exercise period. The note was recorded net of a deferred debt discount of \$2,435, based on the relative fair value of the warrant. Such discount was charged to operations at issuance date.

On May 21, 2012, a stockholder and Board member loaned \$18,000 (unsecured) (of which \$3,000 has been repaid in 2012) to the Company. The loan was due May 21, 2014 with interest at 12% per annum, and is currently in default.

On May 30, 2012, a stockholder and Board member loaned \$20,000 (unsecured) to the Company due March 31, 2013 with interest at 12% per annum, and is currently in default.

As described in Note 8 below, from June 2009 to March 2010, investors loaned the Company an aggregate of \$1,237,459 on three year Series A Convertible Notes with an interest rate of 14%, of which \$20,000 was a related party note. See Note 8 for full description.

On July 6, 2012, a stockholder and Board member loaned \$10,000 (unsecured) to the Company due July 6, 2014 with interest at 12% per annum and convertible into the Company's common stock at \$0.10 per share at the holder's option. The Company determined there was no beneficial conversion feature at the time of issuance. The Company did not make payment on the maturity date; therefore the note is currently in default.

On July 6, 2012, a stockholder and Board member loaned \$20,000 (unsecured) to the Company due July 6, 2014 with interest at 12% per annum and convertible into the Company's common stock at \$0.10 per share at the holder's option. The Company determined there was no beneficial conversion feature at the time of issuance. The Company did not make payment on the maturity date; therefore the note is currently in default.

On July 10, 2012, a stockholder and Board member loaned \$15,000 (unsecured) to the Company due July 10, 2014 with interest at 12% per annum and convertible into the Company's common stock at \$0.10 per share at the holder's option. The Company determined there was no beneficial conversion feature at the time of issuance. The Company did not make payment on the maturity date; therefore the note is currently in default.

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On September 14, 2012, a stockholder and Board member loaned \$6,000 (unsecured) to the Company due September 14, 2014 with interest at 12% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On September 7, 2012, a stockholder and Board member loaned \$43,000 (unsecured) to the Company due September 7, 2014 with interest at 12% per annum and convertible into the Company's common stock at \$0.10 per share at the holder's option. The Company determined there was no beneficial conversion feature at the time of issuance. The Company did not make payment on the maturity date; therefore the note is currently in default.

On October 4, 2012, a stockholder and Board member loaned \$50,000 (unsecured) to the Company due October 4, 2014 with interest at 12% per annum and convertible into the Company's common stock at \$0.10 per share at the holder's option. The Company determined there was no beneficial conversion feature at the time of issuance. The Company did not make payment on the maturity date; therefore the note is currently in default.

On September 5, 2013, a stockholder and Board member loaned \$10,000 (unsecured) to the Company due September 5, 2015 with interest at 10% per annum and convertible into the Company's common stock at \$0.10 per share at the holder's option. The Company determined there was no beneficial conversion feature at the time of issuance. The Company did not make payment on the maturity date; therefore the note is currently in default.

On September 16, 2013, a stockholder and Board member loaned \$3,000 (unsecured) to the Company due September 16, 2015 with interest at 12% per annum and convertible into the Company's common stock at \$0.10 per share at the holder's option. The Company determined there was no beneficial conversion feature at the time of issuance. The company did not make payment on the maturity date; therefore the note is currently in default.

On September 17, 2013, a stockholder and Board member loaned \$5,221 (unsecured) to the Company due September 17, 2014 with interest at 12% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

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On October 24, 2013, a stockholder and Board member loaned \$30,000 (unsecured) to the Company due October 24, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On November 7, 2013, a stockholder and board member loaned \$40,000 (unsecured) to the Company due November 7, 2017 with interest at 10% per annum.

On December 6, 2013, a stockholder and Board member loaned \$5,000 (unsecured) to the Company due December 6, 2016 with interest at 12% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On December 18, 2013, a stockholder and Board member loaned \$30,000 (unsecured) to the Company due December 18, 2018 with interest at 10% per annum.

On January 9, 2014, a stockholder and Board member loaned \$25,000 (unsecured) to the Company due January 9, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On February 28, 2014, the Company issued a \$200,000 secured convertible note that matures on February 28, 2016. The note bears 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 note, the Company issued an aggregate of 2,000,000 warrants to purchase the Company's common stock at \$0.15 per share over three years. In 2016, the Company extended the due date till May 20, 2018

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DEBT RESOLVE, INC.

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On April 24, 2014, the Company issued a \$25,000 secured convertible note that matures on April 24, 2016. The note bears 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 note, the Company issued an aggregate of 250,000 warrants to purchase the Company's common stock at \$0.15 per share over three years. In 2016, the Company extended the due date till April 18, 2018

On November 7, 2014, the Company issued a \$25,000 secured convertible note that matures on November 7, 2016. The note bears 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 note, the Company issued an aggregate of 250,000 warrants to purchase the Company's common stock at \$0.15 per share over three years. In 2016, the Company extended the due date till May 20, 2018

On December 4, 2014, the Company issued two \$25,000 secured convertible notes that mature on December 4, 2016. 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 note, the Company issued an aggregate of 500,000 warrants to purchase the Company's common stock at \$0.15 per share over three years. The Company did not make payment on the maturity date; therefore the note is currently in default.

On January 25, 2015, a stockholder and Board member loaned \$25,000 (unsecured) to the Company due April 25, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On March 3, 2015, the Company issued a \$50,000 secured convertible note that matures on March 3, 2017. The note bears 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 note, the Company issued an aggregate of 750,000 warrants to purchase the Company's common stock at \$0.15 per share over three years.

On May 12, 2015, the Company issued a \$20,000 secured convertible note that matures on May 12, 2017. The note bears 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 note, the Company issued an aggregate of 300,000 warrants to purchase the Company's common stock at \$0.15 per share over three years.

In accordance with ASC 470-20, the Company recognized the value attributable to the warrants and the conversion feature in the aggregate amount of \$5,713 and \$37,830 to additional paid in capital and a discount against the 2014 and 2015 notes, respectively. 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, a risk free interest rate of 0.69% to 1.09%, a dividend yield of 0%, and volatility of 289.98% to 317.93%. 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.

On June 18, 2015, a stockholder and Board member loaned \$25,000 (unsecured) to the Company due April 21, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On July 13, 2015, a stockholder and Board member loaned \$12,500 (unsecured) to the Company due July 12, 2016 with interest at 12% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

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On August 5, 2015, a stockholder and Board member loaned \$25,000 (unsecured) to the Company due January 1, 2016 with interest at 10% per annum with interest paid monthly for August and September 2015 and principal and interest payable from October through December 2015. The Company did not make payment on the maturity date; therefore the note is currently in default.

On August 19, 2015, a stockholder and Board member loaned \$50,000 (unsecured) to the Company due February 19, 2016 with interest at 10% per annum. The Company did not make payment on the maturity date; therefore the note is currently in default.

On May 15, 2016, the Company issued a \$75,000 secured convertible note that matures on May 15, 2018 in settlement of accrued compensation. The note bears interest at a rate of 10% and can be convertible into shares of the Company's common stock, at a conversion rate of \$0.02 per share. Interest will also be converted into common stock at the conversion rate of \$0.02 per share. In connection with the issuance of the convertible note, the Company issued an aggregate of 2,225,000 warrants to purchase the Company's common stock at \$0.10 per share over three years.

The Company has identified the embedded derivatives related to the convertible note dated May 15, 2016 (See Note 10). 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 May 15, 2016 note, the Company determined the aggregate fair value of \$73,697 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 of 336.12%, (3) weighted average risk-free interest rate of 0.55%, (4) expected life from 2 years, and (5) estimated fair value of the Company's common stock of \$0.02 per share. The determined fair value of the debt derivatives of \$73,697 was charged as a debt discount of the note. In addition, the Company recognized the value attributable to the warrants, up to the remaining net proceeds of \$1,303 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, a risk free interest rate of 0.91%, a dividend yield of 0%, and volatility of 336.12%. 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.

On June 9, 2016, a stockholder loaned \$15,000 (unsecured) to the Company due June 9, 2017 with interest at 12% per annum, paid monthly beginning October 2016 and principal payments beginning April 2017.

On June 22, 2016, a stockholder and board member loaned \$30,000 (unsecured) to the Company due June 22, 2017 with interest at 12% per annum, paid monthly beginning October 2016 and principal payments beginning April 2017.

On June 30, 2016, a stockholder and board member loaned \$25,000 (unsecured) to the Company due June 30, 2017 with interest at 12% per annum, paid monthly beginning October 2016 and principal payments beginning April 2017.

On September 28, 2016, a stockholder and board member loaned \$200,000 (unsecured) to the Company due September 28, 2018 (of which \$75,000 has been repaid) with interest at the lowest permissible interest rate, due at maturity. In connection with the issuance of the note, the Company issued an aggregate of 4,000,000 shares of its common stock valued at \$64,000. The Company amortized the fair value of the common stock as a debt discount over the term of the note.

For the years ended December 31, 2016 and 2015, the Company amortized \$49,587 and \$21,169 of debt discount to operations as interest expense.

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Total unpaid accrued interest on the notes payable to related parties as of December 31, 2016 and 2015 was \$337,020 and \$233,856, respectively. During the year ended December 31, 2016 and 2015, the Company recorded interest expense of \$103,865 and \$90,508, respectively, in connection with the notes payable to related parties.

Aggregate maturities of long-term debt as of December 31:

	Amount
Year ended December 31, 2017	\$ 875,721
Year ended December 31, 2018	330,000
Total	\$ 1,205,721

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 December 31, 2016 and 2015, the outstanding balance on this loan was \$308,337 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 December 31, 2016 and 2015 was \$137,409 and \$119,239, respectively.

As of December 31, 2016 and 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 year ended December 31, 2016 and 2015, the Company recorded \$18,170 and \$18,120, respectively, as interest expense.

NOTE 9 – CONVERTIBLE NOTES

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

	2016	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 \$-0- and \$23,410, respectively	750,000	726,590
Bridge 2015 Convertible Notes, net of unamortized debt discount of \$27,685 and \$73,244, respectively	297,315	251,756
Bridge 2016 Convertible Notes, net of unamortized debt discount of \$8,901	63,099	-
Bridge 2 (2016) Convertible Notes, net of unamortized debt discount of \$153,940	96,060	-
Convertible promissory notes, net of unamortized debt discount of \$11,982	33,018	-
Total	2,547,492	2,286,346
Less: Current portion	(1,433,833)	(2,034,590)
Long term portion	\$ 1,113,659	\$ 251,756

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Series A Convertible Notes

From June 2009 to March 2010, unaffiliated investors loaned the Company an aggregate of \$1,217,459 (excluding \$20,000 related party, see Note 7) on three-year Series A Convertible Notes with an interest rate of 14%. 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 addition, the investors received 12,174,590 warrants to purchase the common stock of the Company at an exercise price of \$1.00. On January 21, 2010, the exercise price was reduced to \$0.40 due to certain provisions of the warrants. The exercise period of the warrants is five years. The notes were recorded net of a deferred debt discount of \$1,143,268, based on the relative fair value of the warrants under the Black-Scholes pricing model. Such discount was amortized over the term of the notes.

Certain convertible note holders, representing an aggregate of \$129,500 of these notes entered, into an agreement in 2016 whereby their obligations were extended for a period of two years from the date of execution of the agreement. All other terms (including any amendments or earlier extensions) of the notes remain the same. The remaining convertible note holders representing an aggregate balance of \$687,500 are in default.

Series B Convertible Notes

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 December 31, 2011 and 2010. 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 addition, at conversion, the investors will receive 900,000 warrants to purchase the common stock of the Company at an exercise price of \$0.40 per share. The warrants are callable when the Company's stock trades above \$0.75 per share for 10 consecutive trading days.

The notes were recorded net of a deferred debt discount of \$264,324, based on the relative fair value of the warrants under the Black-Scholes pricing model. Such discount was amortized over the term of the notes.

Certain convertible note holders, representing an aggregate of \$75,000 of these notes entered, into an agreement in 2016 whereby their obligations were extended for a period of 2 years from the date of execution of the agreement. All other terms (including any amendments or earlier extensions) of the notes remain the same. The remaining convertible note holders representing an aggregate balance of \$150,000 are in default.

Series C Convertible Notes

During the year ended December 31, 2010, unaffiliated investors loaned the Company an aggregate of \$260,000 (excluding \$15,000 related party, see Note 6) 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 addition, the investors received 2,641,670 warrants to purchase the common stock of the Company at an exercise price of \$0.40 per share. The series C notes have a "ratchet" provision resetting the conversion price to \$0.10 and the warrant exercise price to \$0.25 on the first closing of a subsequent offering with those terms. This "ratchet" was triggered on August 12, 2010 with the completion of the minimum closing of \$1,500,000 on a \$3,000,000 private placement.

Additionally, as a result of the delay in filing a registration statement on the aforementioned private placement", the Series C Warrants have become "cashless", along with the warrants from the aforementioned private placement. There is no further effect from this "ratchet" event. The notes were recorded net of a deferred debt discount of \$215,940, based on the relative fair value of the warrants under the Black-Scholes pricing model. Such discount was amortized over the term of the notes.

Certain convertible note holders, representing an aggregate of \$160,000 of these notes entered, into an agreement in 2016 whereby their obligations were extended for a period of 2 years from the date of execution of the agreement. All other terms (including any amendments or earlier extensions) of the notes remain the same. The remaining convertible note holders representing an aggregate balance of \$85,000 are in default.

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Series D Convertible Notes

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. 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 addition, the investors received 250,000 warrants to purchase the common stock of the Company at an exercise price of \$0.30 per share over five years. The notes were recorded net of deferred debt discount of \$10,271 based on the relative fair value of the warrants under the Black-Scholes pricing model. Such discount is being amortized over the term of the notes.

On July 21, 2014, the Company issued 49,379 shares of its common stock in settlement of \$4,000 Series D Convertible Note payable and related accrued interest of \$1,925.

Certain convertible note holders, representing an aggregate of \$10,000 of these notes entered, into an agreement in 2016 whereby their obligations were extended for a period of 2 years from the date of execution of the agreement. All other terms (including any amendments or earlier extensions) of the notes remain the same. The remaining convertible note holders representing an aggregate balance of \$11,000 are in default. Additionally, one note holder has filed liens against the Company on his behalf and two of his affiliates to secure payment of the obligations.

In 2014, the Company issued an aggregate of \$1,050,000 (excluding \$300,000 related party, see Note 7) in secured convertible notes that mature two years from the date of issuance (from January 2016 through December 2016). 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 7,500,000 warrants to purchase the Company's common stock at \$0.15 per share over three years.

In accordance with ASC 470-20, the Company recognized the value attributable to the warrants and the conversion feature in the amount of \$113,146 to additional paid in capital and a discount against the 2014 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 from 0.69% to 1.10%, a dividend yield of 0%, and volatility of 287.80% to 319.28%. 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.

Certain convertible note holders, representing an aggregate of \$550,000 of these notes entered, into an agreement in 2016 whereby their obligations were extended for a period of 2 years from the date of execution of the agreement. In connection with the extension, the Company re-priced previously issued warrants from an exercise price of \$0.15 to \$0.10 and extended the maturity by two years. All other terms (including any amendments or earlier extensions) of the notes remain the same. The remaining convertible note holders representing an aggregate balance of \$200,000 are in default.

In 2015, the Company issued an aggregate of \$325,000 in secured convertible notes that mature two years from the date of issuance (from February 2017 through December 2017). 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 4,500,000 warrants to purchase the Company's common stock at \$0.15 per share over three years.

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In accordance with ASC 470-20, the Company recognized the value attributable to the warrants and the conversion feature in the amount of \$86,382 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 from 0.63% to 1.25%, a dividend yield of 0%, and volatility of 307.16% to 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

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.

On July 14, 2016, the Company issued a \$25,000 a unsecured convertible note that mature two years from the date of issuance. The note bears interest at a rate of 10% and can be convertible into shares of the Company's common stock, at a conversion rate of \$0.02 per share. Interest will also be converted into common stock at the conversion rate of \$0.02 per share. In connection with the issuance of the convertible notes, the Company issued an aggregate of 750,000 warrants to purchase the Company's common stock at \$0.10 per share over three years.

In 2016, the Company issued an aggregate of \$120,000 in unsecured convertible notes that mature one year from the date of issuance (from February 2017 through September 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 \$0.02 per share (as amended). Interest will also be converted into common stock at the conversion rate of \$0.02 per share. In addition, until amended on August 17, 2016, 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. In 2016, the Company issued an aggregate of 2,652,727 shares of its common stock in settlement of \$75,000 outstanding notes and related accrued interest.

After February 1, 2016, the Company issued an aggregate of \$200,000 in secured convertible notes that mature two years from the date of issuance (from January 2018 through June 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 \$0.02 per share. Interest will also be converted into common stock at the conversion rate of \$0.02 per share. In connection with the issuance of the convertible notes, the Company issued an aggregate of 6,000,000 warrants to purchase the Company's common stock at \$0.10 per share over three years.

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 to August 17, 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.

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At inception of the post January 2016 notes through August 17, 2016, the Company determined the aggregate fair value of \$358,222 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 323.14% to 348.27%, (3) weighted average risk-free interest rate from 0.40% 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 \$358,222 was charged as a debt discount of the note. In addition, the Company recognized the value attributable to the warrants, up to the remaining net proceeds of \$8,854 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, a risk free interest rate of 0.87% to 0.92%, a dividend yield of 0%, and volatility of 330.45% to 348.10%. 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.

On October 3, 2016, the Company issued a \$25,000 a unsecured convertible note that mature two years from the date of issuance. The note bears interest at a rate of 10% and can be convertible into shares of the Company's common stock, at a conversion rate of \$0.02 per share. Interest will also be converted into common stock at the conversion rate of \$0.02 per share. In connection with the issuance of the convertible notes, the Company issued an aggregate of 750,000 warrants to purchase the Company's common stock at \$0.10 per share over three years.

Certain convertible note holders, representing an aggregate of \$909,500 of these notes, entered into agreements in 2016 whereby their obligations were extended from May 2018 through October 2018. The terms of the agreement included extension of previously issued warrants in connection with the debt by two years and reducing the exercise price from \$0.10-\$0.15 per share to \$0.65-\$0.10 per share to certain note holders. All other terms (including any amendments or earlier extensions) of the notes remain the same.

The determined change in fair value of the extended and re-priced warrants was determined using the Black-Scholes Pricing Model based on the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 322.74% to 348.75%, (3) weighted average risk-free interest rate of 0.43% to 0.68%, (4) expected life from 0.65 to 1.04 years, and (5) estimated fair value of the Company's common stock of \$0.011 to 0.032 per share. The determined fair value of the change in warrants of \$43,892 and change in conversion rates of \$43,187 was charged to current period interest.

For the year ended December 31, 2016 and 2015, the Company amortized \$192,458 and \$74,258 of debt discount to current period operations as interest expense.

Aggregate maturities of long-term debt as of December 31:

	Amount
Year ended December 31, 2017	\$ 1,473,500
Year ended December 31, 2018	1,276,500
Total	\$ 2,750,000

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NOTE 10 – DERIVATIVE LIABILITIES

Excessive committed shares

Beginning on April 11, 2013 through December 22, 2015, in connection with the previously issued convertible debt, stock options and warrants, the Company had the possibility of exceeding their 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. This resulted in a derivative liability as a result of the Company having a potential to settle the obligation to issue these excess shares. The accounting treatment of derivative financial instruments required that the Company 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. On December 22, 2015, the Company amended the Articles of Incorporation to increase of authorized shares of common stock from 200,000,000 to 500,000,000 thereby having sufficient authorized common shares to meet any settlement provisions.

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.

During the year ended December 31, 2015, the fair value of the net derivative liabilities reclassified from equity of \$628,457 was determined using the Black Scholes Option Pricing model with the following assumptions: dividend yield: 0%; volatility: 306.06% to 351.47%; risk free rate: 0.01% to 1.88%; and expected life: 0.09 to 5.00 years.

At December 22, 2015, the fair value of the derivative liabilities of \$583,071, determined using the Black Scholes Option Pricing model with the following assumptions: dividend yield: 0%; volatility: 333.28%; risk free rate: 0.19% to 0.99%; and expected life: 0.13 to 2.31 years, was reclassified to equity upon the increase in common share

authorization.

The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities in regard to excessive committed shares for the year ended December 31, 2015:

	Excess Share Derivative
Balance, December 31, 2014	336,582
Transfers in of Level 3 upon exceeding in authorized shares	628,457
Transfers out of Level 3 upon increasing authorized shares on December 22, 2015	(583,071)
Mark-to-market at December 22, 2015	(381,968)
Balance, December 31, 2015	\$ -

Embedded derivatives

As described in Note 9, the Company has identified the embedded derivatives related to the notes issued after January 31, 2016 through August 17, 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.

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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.

On August 17, 2016, the Company modified the previously issued notes eliminating the embedded derivative. The Company determined the aggregate fair value of \$327,905 of embedded derivatives at the date of modification. 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 of 346.44%, (3) weighted average risk-free interest rate from of 0.46% to 0.74%, (4) expected life from 0.46 to 1.91 years, and (5) estimated fair value of the Company's common stock of \$0.0175 per share. The Company reclassified the determined fair value of the derivative of \$327,905 from liability to equity on August 17, 2016.

At December 31, 2016 and 2015, the Company did not have any level 3 assets or liabilities.

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

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

	Derivative Liability
Balance, December 31, 2015	\$ -
Total (gains) losses	
Transfers in of Level 3 upon issuance of convertible notes payable	358,222
Transfers out of Level 3 upon debt modification	(327,905)

Mark-to-market at August 17, 2016:		(30,317)
Balance, December 31, 2016	\$	-0-
Net Gain for the period included in earnings relating to the liabilities held at December 31, 2016	\$	30,317

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 57% for the two years ended December 31, 2016. As the stock price increased 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 consolidated 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. The simulated fair value of these liabilities is sensitive to changes in the Company's expected volatility. Increases in expected volatility would generally result in higher fair value measurement. A 10% change in pricing inputs and changes in volatilities and correlation factors would not result in a material change in our Level 3 fair value.

NOTE 11 – STOCKHOLDERS' EQUITY

Preferred Stock

At December 31, 2016 and 2015, the Company has authorized 10,000,000 shares of preferred stock, par value \$0.001, of which none were issued and outstanding.

On July 7, 2015, the Company issued 47,500 shares of its Series A Convertible Stock as payment for services rendered valued at \$2,850.

In October 2015, the Company issued an aggregate of 6,425,000 shares of its common stock in exchange of 642,500 shares of Series A Convertible Stock.

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Common stock

At December 31, 2016 and 2015, the Company has authorized 500,000,000 shares of common stock, par value \$0.001, of which 121,264,809 and 104,612,082 are issued and outstanding as of December 31, 2016 and 2015, respectively.

On December 22, 2015, the Company filed with the State of Delaware to amend the Articles of Incorporation to increase authorized shares of common stock from 200,000,000 to 500,000,000.

During the year ended December 31, 2016, the Company issued an aggregate of 2,652,727 shares of its common stock in exchange for convertible notes payable and accrued interest of \$82,974.

On August 9, 2016, the Company issued 5,000,000 shares of common stock as compensation to the non-controlling interest parties of Student Loan Care LLC valued at \$100,000.

On September 30, 2016, the Company issued 5,000,000 shares of common stock as officer compensation valued at \$100,000.

On December 29, 2016, the Company issued an aggregate of 4,000,000 shares in connection with the issuance of related party debt valued at \$64,000.

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 December 31, 2016:

Exercise Price	Number Outstanding	Warrants Outstanding Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Warrants Exercisable Weighted Average Exercise Price
0.01 to \$ 0.10	86,650,000	3.59	\$ 0.08	56,650,000	\$ 0.10
0.11 to 0.20	8,475,000	1.15	0.15	8,475,000	0.15
0.21 to 0.30	6,700,000	0.45	0.25	6,700,000	0.25
Total	101,825,000	3.18	\$ 0.10	71,825,000	\$ 0.12

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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, 2014	90,861,684	\$ 0.20
Issued	5,550,000	0.15
Exercised	-	
Expired	(24,026,684)	(0.24)
Outstanding at December 31, 2015	72,385,000	0.15
Issued	40,050,000	0.06
Exercised	-	-
Expired	(10,610,000)	(0.25)
Outstanding at December 31, 2016	101,825,000	\$ 0.10

In conjunction with the issuance of convertible notes, during the year ended December 31, 2015, the Company issued an aggregate of warrants to purchase 5,550,000 shares of common stock with an exercise price of \$0.15 per share expiring three years from the date of issuance. Please see Notes 7 and 9.

On August 12, 2015, the Company repriced to \$0.10 and extended for the three years an aggregate of 11,925,000 expiring warrants previously issued to Board Members. The change in fair value of the extended warrants were valued using the Black Sholes option pricing method with the following assumptions: dividend yield \$-0-, volatility of underlying common stock of 349.90%, risk free rate of 1.88% and expected life of 3.00 years. The determined estimated fair value of \$100,276 was charged to operations during the year ended December 31, 2015.

In conjunction with the issuance of convertible notes, during year ended December 31, 2016, the Company issued warrants to purchase 250,000 and 9,725,000 shares of common stock with an exercise price of \$0.15 and \$0.10 per share expiring three years from the date of issuance, respectively. Please see Note 9.

During the year ended December 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 year ended December 31 2016.

In connection with entering into the Student Loan Care LLC joint venture with Hutton Ventures, LLC, the Company issued to Hutton Ventures LLC three five-year warrants to purchase an aggregate of 30,000,000 shares of common stock of the Company at an exercise price of \$0.05 per 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.

During the year ended December 31, 2016, the Company extended the life of previously issued warrants to purchase 8,000,000 shares of common stock by two years and reduced the exercise price from \$0.15 per share to \$0.10 per share in connection with the note extensions. Please see Note 9.

Table of Contents**DEBT RESOLVE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015**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 December 31, 2016:

Exercise Price	Number Outstanding	Warrants Outstanding Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Warrants Exercisable Weighted Average Exercise Price
\$ 0.50	2,120,000	3.05	\$ 0.50	1,120,000	\$ 0.50
1.00	71,000	0.71	1.00	71,000	1.00
1.50	373,500	0.89	1.50	373,500	1.50
Total	2,564,500	2.67	\$ 0.66	1,564,500	\$ 0.76

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2014	1,914,500	\$ 0.66
Issued	705,000	0.61
Exercised	-	-
Canceled	(95,000)	1.00
Outstanding at December 31, 2015	2,524,500	0.65
Issued	40,000	1.50
Exercised	-	-
Canceled	-	-
Outstanding at December 31, 2016	2,564,500	\$ 0.66

On October 5, 2015, the Company issued LSH, LLC a five year warrant to purchase 500,000 shares of series A convertible stock of Debt Resolve at an exercise price of \$0.50 per preferred share. The warrant is contingent upon Progress Advocates, LLC achieving operational goals, as defined.

During the year ended December 31, 2015, the Company issued an aggregate 205,000 Series A convertible preferred stock warrants in connection with services provided of which 95,000 were subsequently canceled. The warrants are exercisable for three to five years from the date of issuance at an exercise prices from \$0.50 to \$1.50 per preferred share. The warrants were valued using the Black Sholes option pricing method with the following assumptions: dividend yield \$-0-, volatility of underlying common stock of 306.06% to 355.95%, risk free rate of 0.59% to 1.33% and expected life of 3.00 to 5.00 years. The determined estimated fair value of \$17,306 was charged to operations during the year ended December 31, 2015.

During the year ended December 31, 2016, the Company issued 40,000 Series A convertible preferred stock warrants in connection with services provided. The warrants are exercisable for three years from the date of issuance at exercise prices of \$1.50 per preferred share. The warrants were valued using the Black Sholes option pricing method with the following assumptions: dividend yield \$-0-, volatility of underlying common stock of 343.24%, risk free rate of 0.88% and expected life of 3.00 years. The determined estimated fair value of \$6,346 was charged to operations during the year ended December 31, 2016.

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The following table summarizes options outstanding and related prices for the shares of the Company's common stock issued at December 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	7,000,000	4.10	\$ 0.015	2,000,000	\$ 0.015
0.02	400,000	6.00	0.02	250,000	0.02
0.025	250,000	5.65	0.025	250,000	0.025
0.06	3,000,000	1.42	0.06	3,000,000	0.06
0.09	250,000	1.93	0.09	250,000	0.09
0.095	500,000	2.05	0.095	500,000	0.095
0.10	650,000	1.19	0.10	650,000	0.10
0.13	500,000	0.34	0.13	500,000	0.13
0.17	4,500,000	0.27	0.17	4,500,000	0.17
0.22	175,000	0.25	0.22	175,000	0.22
Total	17,225,000	2.35	\$ 0.08	12,075,000	\$ 0.10

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

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2014	17,045,434	\$ 0.64
Issued	250,000	0.025
Exercised	-	-

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Expired	(1,703,000)	(1.19)
Outstanding at December 31, 2015	15,592,434	0.67
Issued	4,150,000	0.02
Exercised	--	--
Expired	(2,517,434)	(3.09)
Outstanding at December 31, 2016	17,225,000	\$ 0.08

In 2015, the Board granted stock options to purchase 250,000 shares of common stock of the Company at exercise price of \$0.025 with exercise period of seven years to a new board member, fully vested at the date of issuance.

The fair value of the options issued to employees and consultants were determined using the Black-Scholes option pricing method with the following assumptions: Dividend yield: 0%; Volatility: 304.56% to 350.51%; and Risk Free rate: 2.13% to 2.14%.

In February 2016, the Board granted stock options to purchase 2,000,000 shares of common stock of the Company at exercise price of \$0.015 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 \$40,000 and will be charged to operations through the vesting period.

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DEBT RESOLVE, INC.

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In April 2016, the Board granted stock options to purchase 150,000 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 six month anniversary for eighteen months. The grant was valued using the Black-Scholes option pricing model and had a value of \$1,650 and will be charged to operations through the vesting period.

In May 2016, the Board granted stock options to purchase 2,000,000 shares of common stock of the Company at exercise price of \$0.015 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 \$40,000 and will be charged to operations through the vesting period.

The Black-Scholes option pricing model used the following assumptions: Dividend yield: 0%; Volatility: 329.59% to 348.27%; and Risk Free rate: 1.55% to 1.72%, term: contractual terms.

Total stock-based compensation expense for options for the year ended December 31, 2016 and 2015 amounted to \$34,712 and \$21,250, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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 "Lawsuits from Noteholders")) 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. A stipulation with respect to damages was entered by the Court on August 29, 2016 providing that the total outstanding principal and interest due the noteholder as of July 31, 2016 is \$322,152. The noteholder is seeking an award of his attorneys' fees from the Court. No decision has been rendered by the Court with respect to noteholder's attorneys' fee claim.

From time to time, the Company is 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 the Company's consolidated financial position or results of operations.

Payroll and 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 December 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.

Compensation settlement:

On April 19, 2016, the Company entered into a settlement agreement with the former Chief Executive officer whereby the Company issued a convertible note for \$75,000 and 2,225,000 warrants to purchase the Company's common stock at \$0.10 per share for three years as part settlement of the outstanding salary due of \$153,750. The remaining balance is to be paid monthly installments of \$2,500 to the extent of available cash flows as determined by the Board of Directors.

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Employment agreement

The Company entered into an employment agreement with Mr. Bellmare for a three year term commencing as of February 1, 2016, subject to automatic renewal for additional one-year periods unless written notice of non-renewal is provided by either party. Pursuant to the employment agreement, Mr. Bellmare has agreed to devote his full time to our business as Chief Operating Officer. The employment agreement provides that Mr. Bellmare is entitled to receive a base salary of \$150,000, and an annual increase in such base salary based on meeting specified financial and performance milestones at the company. The employment agreement provides for termination by us upon death or disability (as defined therein) or for Cause (as defined therein). In the event the employment agreement is terminated by us within one year of a Change of Control (as defined therein) other than for Cause, Mr. Bellmare will be entitled to receive in a lump sum payment his base salary from the termination date until the one-year anniversary of such Change of Control. The employment agreement contains covenants (i) restricting the executive from engaging in any activities competitive with the business of our company during the term of the agreement and for a period of one year thereafter, and from soliciting our employees, customers and prospective customers for a period of one year after the termination of the agreement, (ii) prohibiting the executive from disclosing confidential information regarding our company and (iii) requiring that all intellectual property developed by the executive and relating to the business of our company constitutes our sole and exclusive property.

On May 15, 2016, the Company appointed Mr. Bellmare as Chief Executive Officer. At that time, Mr. Bellmare's employment agreement was modified to increase his base salary to \$210,000, grant Mr. Bellmare an additional 3M shares of the Company's common stock and an option for an additional 2M shares of the Company's common stock. All other terms of his employment contract dated 2/1/2016 remain the same.

On July 1, 2015, the Company issued Bruce Bellmare Consulting, an entity under the control of Mr. Bellmare, a warrant to acquire 4,500 Series A Convertible Preferred stock at an exercise price of \$1.50 for for three years, vesting immediately at a fair value of \$176.

On December 1, 2015, the Company issued Mr. Bellmare a warrant to acquire 9,000 Series A Convertible Preferred stock at an exercise price of \$1.50 for for three years, vesting immediately at a fair value of \$2,688.

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On February 1, 2016, the Company issued Mr. Bellmare an option to acquire 2,000,000 shares of the Company's common stock at an exercise price of \$0.02 for seven years, vesting over three years at anniversary at a fair value of \$39,999.

On May 16, 2016, the Company issued Mr. Bellmare an option to acquire 2,000,000 shares of the Company's common stock at an exercise price of \$0.015 for seven years, with market conditions (as defined) at a fair value of \$39,999.

On September 30, 2016, the Company issued Mr. Bellmare 5,000,000 shares of the Company's common stock at a fair value of \$100,000.

Operating leases

The Company currently occupies office space at 1133 Westchester Avenue, Suite S-223, White Plains, NY 10604, under a short term lease with an unaffiliated third party. The monthly rent is \$3,500 and can be terminated with a sixty day notice.

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DEBT RESOLVE, INC.

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NOTE 14 – RELATED PARTY TRANSACTIONS

During the year ended December 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 \$122,035 and \$108,628 for the year ended December 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 year ended December 31, 2016 and 2015, the Company reimbursed approximately \$289,000 and \$3,800,000 in incurred costs, respectively. Included in accounts payable and accrued liabilities at December 31, 2016 and 2015 is \$73,807 and \$81,729, respectively.

NOTE 15 – NON CONTROLLING INTEREST

In December 2014, the Company organized Progress Advocates, LLC, a Delaware limited liability company for the purpose to provide services in the student loan document preparation industry. At the time of formation, Progress Advocates, LLC did not have any significant assets or liabilities. In connection with entering into the Progress Advocates LLC joint venture with LSH, LLC (minority owner), the Company issued to LSH, LLC two five-year warrants to purchase an aggregate of 1,500,000 shares of series A convertible preferred stock of Debt Resolve at an exercise price of \$0.50 per preferred share..

In February 2016, the Company, jointly with Patient Online Services, LLC, organized Payment Resolution Systems LLC, a Delaware limited liability company for the purpose of assisting Medical Groups and Hospitals in the online negotiation and settlement of delinquent accounts, with ownership interests of 51% and 49% for the Company and Patient Online Services, LLC, respectively.

In May 2016, the Company, jointly with Hutton Ventures LLC, organized Student Loan Care LLC, a Delaware limited liability company for the purpose of providing document preparation services for holders of Federal Direct Student Loans, with ownership interests of 51% and 49% for the Company and Hutton Ventures LLC, respectively.

In connection with entering into the Student Loan Care LLC joint venture with Hutton Ventures, LLC, the Company issued to Hutton Ventures LLC three five-year warrants to purchase an aggregate of 30,000,000 shares of common stock of the Company at an exercise price of \$0.05 per 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.

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A reconciliation of the non-controlling income (loss) attributable to the Company:

Net loss attributable to non-controlling interest for the year ended December 31, 2016:

	Progress Advocates, Inc.	Student Loan Care LLC	Patient Online Services, LLC
Net income (loss)	\$ (315,007)	\$ 141,695	\$ (5,863)
Average Non-controlling interest percentage	49%	49%	49%
Net Income (loss) attributable to the non-controlling interest	\$ (154,354)	\$ 69,431	\$ (2,873)

Net loss attributable to non-controlling interest for the year ended December 31, 2015:

	Progress Advocates, Inc.
Net loss	\$ (744,077)
Average Non-controlling interest percentage	49%
Net income (loss) attributable to the non-controlling interest	\$ (364,598)

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The following table summarizes the changes in non-controlling interest from January 1, 2015 to December 31, 2016:

	Progress Advocates	Student Loan Care, LLC	Patient Online Services, Inc.	Total
Balance, January 1, 2015	\$ (42,373)	\$ -	\$ -	\$ (42,373)
Net loss attributable to the non-controlling interest	(364,598)	-	-	(364,598)
Balance, December 31, 2015	(406,971)	-	-	(406,971)
Net capital withdrawal by non-controlling interest	-	(64,739)	-	(64,739)
Net income (loss) attributable to the non-controlling interest	(154,354)	69,431	(2,873)	(87,796)
Balance, December 31, 2016	\$ (561,325)	\$ 4,692	\$ (2,873)	\$ (559,506)

NOTE 16 – INCOME TAXES

The Company follows Accounting Standards Codification subtopic 740, Income Taxes ("ASC 740") which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse.

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

	2016	2015
Income taxes using U.S. federal statutory rate	34.0%	34.0%
State income taxes, net of federal benefit	3.8%	3.8%

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Prior period provision	0%	0%
Stock Expirations	0%	0%
Other	(0.1)%	(0.1)%
Change in Valuation Allowance	(37.7)%	(37.7)%

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The significant components of the deferred tax assets (liabilities) at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Deferred tax assets:		
Stock Based Compensation	\$ 1,236,475	\$ 1,216,472
Net Operating Losses	12,798,602	12,251,334
Accrued payroll	311,678	218,654
Intangibles	2,733,398	2,738,614
Total deferred tax assets	17,080,153	16,425,074
Deferred tax liabilities:		
Beneficial Conversion Feature	(85,190)	(40,147)
Total deferred tax liabilities	(85,190)	(40,147)
Valuation allowance	(16,994,963)	(16,384,927)
Net deferred tax assets	\$ -	\$ -

As of December 31, 2016 and 2015, the Company had U.S. federal and state net operating loss carryforwards of approximately \$33.9 million and \$32.5 million, respectively, which expire at various dates from 2024 through 2036. These net operating loss carryforwards may be used to offset future taxable income and thereby reduce the Company's U.S. federal income taxes. Section 382 of the Internal Revenue Code of 1986 (the "Code") imposes an annual limit on the ability of a corporation that undergoes a greater than 50% ownership change to use its net operating loss carryforwards to reduce its tax liability. The Company may be subject to a limitation as a result of the Company's initial public offering in 2006 and other transactions related to its stock ownership. These potential limitations could affect the utilization of the carryforwards prior to their expiration.

The Company has provided a full valuation allowance against its net deferred tax assets, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits of these assets will not be realized.

The Company complies with the provisions of FASB ASC 740-10 in accounting for its uncertain tax positions. ASC 740-10 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740-10, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely that not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Management has determined that the Company has no significant uncertain tax positions requiring recognition under ASC 740-10.

The Company is subject to income tax in the U.S., and certain state jurisdictions. The Company has not been audited by the U.S. Internal Revenue Service, or any states in connection with income taxes. The periods from December 31, 2014 to December 31, 2016 remain open to examination by the U.S. Internal Revenue Service, and state tax authorities. The periods from December 31, 2006 to December 31, 2013 are subject to examination up to the net operating loss.

The Company recognizes interest and penalties related to unrecognized tax benefits, if incurred, as a component of income tax expense.

NOTE 17 - SUBSEQUENT EVENTS

In accordance with ASC 855-10, *Subsequent Events*, we have analyzed our operations subsequent to December 31, 2016, through the date the financial statements were available to be issued, and have determined that we do not have any material subsequent events to disclose in these financial statements.