

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

Form 10-K

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

For the fiscal year ended **December 31, 2018**

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

Commission File Number: **333-148987**

CUENTAS, INC.
(Formerly NEXT GROUP HOLDINGS, INC.)
(Exact name of Registrant as specified in its charter)

Florida

(State or Other Jurisdiction of
Incorporation or Organization)

20-3537265

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

19 W. FLAGLER ST, SUITE 902, MIAMI, FL 33130
(Address of principal executive offices)

800-611-3622
(Registrant's telephone number)

Securities registered under Section 12(b) of the Act: **None**

Securities registered under Section 12(g) of the Act: **Common Stock, \$0.0001 par value**

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) 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.

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

The number of shares of Common Stock, \$0.001 par value, outstanding on April 15, 2019 was 2,057,016 shares.

TABLE OF CONTENTS

| | Page | |
|-----------------|---|----|
| PART I | | |
| Item 1. | Business | 1 |
| Item 1A. | Risk Factors | 5 |
| Item 1B. | Unresolved Staff Comments | 5 |
| Item 2. | Properties | 5 |
| Item 3. | Legal Proceedings | 5 |
| PART II | | |
| Item 5. | Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities | 7 |
| Item 6. | Selected Financial Data | 9 |
| Item 7. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 10 |
| Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 17 |
| Item 8. | Financial Statements and Supplementary Data | 17 |
| Item 9. | Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 18 |
| Item 9A (T) | Control and Procedures | 18 |
| Item 9B. | Other Information | 19 |
| PART III | | |
| Item 10. | Directors, Executive Officers and Corporate Governance | 20 |
| Item 11. | Executive Compensation | 23 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 24 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 25 |
| Item 14. | Principal Accounting Fees and Services | 25 |
| PART IV | | |
| Item 15. | Exhibits, Financial Statement Schedules | 25 |
| Item 16. | Form 10-K Summary | 25 |

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995 or by the U.S. Securities and Exchange Commission in its rules, regulations and releases, regarding, among other things, all statements other than statements of historical facts contained in this report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “could,” “target,” “potential,” “is likely,” “will,” “expect” and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. In addition, our past results of operations do not necessarily indicate our future results.

These statements include, among other things, statements regarding:

- our ability to implement our business plan;
- our ability to attract key personnel;
- our ability to operate profitably;
- our ability to efficiently and effectively finance our operations, and/or purchase orders;
- inability to raise additional financing for working capital;
- inability to efficiently manage our operations;
- the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;
- changes in the legal, regulatory and legislative environments in the markets in which we operate;
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations.

Except as otherwise required by applicable laws and regulations, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this report, whether as a result of new information, future events, changed circumstances after the date of this report. Neither the Private Securities Litigation Reform Act of 1995 nor Section 27A of the Securities Act of 1933 provides any protection to us for statements made in this report. You should not rely upon forward-looking statements as predictions of future events or performance. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

The Company maintains an internet website at www.cuentas.com. The Company makes available, free of charge, through the Investor Information section of the web site, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Section 16 filings and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Any of the foregoing information is available in print to any stockholder who requests it by contacting our Investor Relations Department.

Throughout this Annual Report references to “Cuen”, “we”, “our”, “us”, “the Company”, and similar terms refer to Cuentas, Inc.

PART I

ITEM 1. BUSINESS

The Company

Cuentas, Inc. (the “Company”) is a corporation formed under the laws of Florida, which focuses on the business of using proprietary technology to provide FinTech Services delivering mobile banking, online banking, prepaid debit and digital content services to the unbanked, underbanked and underserved communities.

Operating Subsidiaries. The Company’s business operations are conducted primarily through its subsidiaries. The Company’s subsidiaries are as follows:

- Meimoun & Mammon, LLC (100% owned by the Company), a limited liability company formed under the laws of Florida (“M&M”);
- Next CALA, Inc. (94% owned by the Company), a corporation formed under the laws of Florida (“Next CALA”);
- NxtGn, Inc. (65% owned by the Company), a corporation formed under the laws of Florida (“NxtGn”);
- Next Mobile 360 LLC (100% owned by the Company), a limited liability company formed under the laws of Florida (“Next Mobile”); and
- SDI Next Distribution LLC (“SDI Next”), a limited liability company formed under the laws of Florida (51% owned by the Company)

Properties. The Company’s headquarters are located in Miami, Florida.

Recent Developments

Reverse split

On June 25, 2018, our stockholders approved a reverse split of our Common Stock. On June 28, 2018, we effectuated a reverse split of our Common Stock upon the filing of our Certificate of Amendment No. 2 to our Amended and Restated Articles of Incorporation, at a ratio of 300-to-1 (the “2018 Reverse Stock Split”), such that each 300 shares of Common Stock issued and outstanding immediately prior to the effective time of the 2018 Reverse Stock Split automatically combined into 1 validly issued, fully paid and non-assessable share of our Common Stock without any further action by the Company or the holder thereof. All share numbers in this Form 10-K reflect post-split stock number amounts.

Entrance into Non-Binding Letter of Intent with Facio

On March 14, 2019, The Company has entered into a Letter of Intent with Facio Ltd, an Israeli FinTech company that has developed innovative artificial intelligence and big data technologies to deliver digital banking services autonomously, without human intervention. This agreement, if consummated and implemented, will enable the Cuentas GPR Card users to purchase popular digital content, products and services at a discounted price within an advanced and personalized mobile app experience which combines traditional banking services with new innovative services. The Company will enable its Cuentas GPR Card users to use Facio’s innovative point of sale directly from their mobile phone using Facio’s Tap-to-pay NFC or QR technology.

Limecom, Inc.

On October 24, 2017, the Company received 100% of all outstanding shares of Limecom, Inc., as per the acquisition agreement which was effective as of October 24, 2017. The Company through its wholly-owned subsidiary, Next Group Acquisition Inc., purchased all of the issued and outstanding shares of LimeCom, Inc. ("LimeCom"), a Florida corporation, from Heritage Ventures Limited ("Heritage"). LimeCom is engaged in the global telecommunications business. The Stock Purchase Agreement ("Limecom Purchase Agreement") with Heritage provided for the delivery of the Company restricted common stock of the Company and the sum of \$2,000,000. Additionally, the Company agreed to an initial cash payment equal to the net income of Limecom for the period of January 1, 2017 to October 23, 2017 which totaled approximately \$1,000,000. The cash component of the purchase price is payable within eight (8) months from the closing date. 10,360,962 pre-reverse split (34,537 post reverse split) shares of the Company stock was to be held in escrow for a period of eight (8) months in the event that any unknown or undisclosed claims are made against LimeCom. The acquisition further provided that LimeCom must achieve \$125,000,000 in revenues in fiscal year 2017 and \$2,500,000 in EBITA which was achieved. The Company and Heritage have a mutual right of rescission if the \$2,000,000 is not paid or any unknown or undisclosed material claims are made against Limecom as set forth in the Agreement.

As a part of the Agreement, Orlando Taddeo, President and CEO of LimeCom, and principal stockholder of Heritage, has agreed to enter into an Employment Agreement with LimeCom to be the President and CEO of LimeCom for all LimeCom business operations outside of the U.S., until such time as he qualifies to work in the U.S. His Employment Agreement further provides that his Agreement will be the same as that of Arik Maimon, CEO of the Company. He will also be appointed a Director of CUEN.

On January 29, 2019, the Company and Heritage agreed to extend the right of the Company to rescind the agreement, to sell the stock in Limecom back to Heritage as the follows:

- (a) The 138,147 shares of the Company issued to Heritage and its Stockholders will not be returned to the Company, and the remaining 34,537 shares of the Company in escrow will not be issued to Heritage. Instead, the Company will issue an additional 90,000 shares of the Company as directed by Heritage.
- (b) The \$1,807,000 payment obligation under the Limecom Purchase Agreement will be cancelled.
- (c) The Employment Agreement with Orlando Taddeo as International CEO of Limecom will be terminated.
- (d) Heritage, its Stockholders and the current management of Limecom agreed to indemnify and hold harmless Next Group Acquisition and the Company from any liabilities (known and unknown) incurred by Limecom (accrued, disclosed or undisclosed by Limecom) up to and including the rescission date.
- (e) Heritage and Limecom's current management agreed to cooperate with Next Group Acquisition and/or the Company with any information required to be disclosed to the Securities and Exchange Commission ("SEC") as a part of Cuentas' SEC disclosure obligations with respect to the recession.
- (f) Heritage, Limecom and its current management and Stockholders agreed to cooperate with Cuentas' auditors in providing all material information to Cuentas' auditors as is reasonably required.
- (g) Heritage and the Limecom current management agreed that the intercompany loan in the approximate sum of \$231,000 will be cancelled.
- (h) Cuentas agreed to issue 20,740 shares of Cuentas restricted stock to several Limecom employees in exchange for salaries due to them. Those shares will be issued and held in escrow until the full satisfaction of the terms of this Amendment.
- (i) Cuentas agreed to advance the sum of \$25,000 toward the payments agreed upon to be paid to American Express ("AMEX") by Limecom, and Limecom agrees to pay the sum of \$25,000 to AMEX and the balance of the payments under the Stipulation of Settlement with American Express as agreed upon by Limecom.

On January 30, 2019, Cuentas sent an executed document to Limecom rescinding the acquisition of Limecom, Inc. ("Limecom") according to the Amendment signed January 29, 2019.

Cuentas fulfilled its obligation to pay \$25,000 to AMEX pursuant to the Amendment dated January 29, 2019.

Formation of SDI NEXT Distribution LLC (“SDI NEXT”)

On December 6, 2017, the Company completed its formation of SDI NEXT Distribution in which it owns a 51% membership interest, previously announced August 24, 2017 as a Letter of Intent with Fisk Holdings, LLC. As Managing Member of the newly formed LLC, the Company will contribute a total of \$500,000, to be paid per an agreed-upon schedule over a twelve-month period. Fisk Holdings, LLC will contribute 30,000 (thirty thousand) active Point of Sale locations for distribution of retail telecommunications and prepaid financial products and services to include, but not be limited to: prepaid General Purpose Reload (“GPR”) cards, prepaid gift cards, prepaid money transfer, prepaid utility payments, and other prepaid products. The completed formation of an established distribution business for third-party gift cards, digital content, mobile top up, financial services and digital content, which presently includes more than 31,600 U.S. active Point of Sale locations, including store locations, convenience stores, bodegas, store fronts, etc. The parties agreed that additional product lines may be added with unanimous decision by the Managing Members of the LLC. During 2018, it was agreed between the parties to distribute the Company’s recently announced CUENTAS GPR card and mobile banking solution aimed to the unbanked, underbanked and financially underserved consumers, making them available to customers at the more than 31,600 retail locations SDI presently serves.

Next CALA

Our Next CALA subsidiary owns the NextCALA-branded Prepaid Visa® General Purpose Reloadable (“GPR”) prepaid debit cards, bearing the Next CALA Debit™ and Visa® logos and has rights to develop and manage the MIO brand GPR card.

NxtGn

NxtGn. Our NxtGn subsidiary is a software company which designs, develops, produces, markets, and provides robust, scalable, high density, high performance HD video platforms, call processing engines, and worldwide telephony networks intended to give clients proprietary and sustainable competitive advantages in efficiency, stability, security, flexibility, and costs, allowing them to deliver premium quality voice, video, and data services at above-average profit margins.

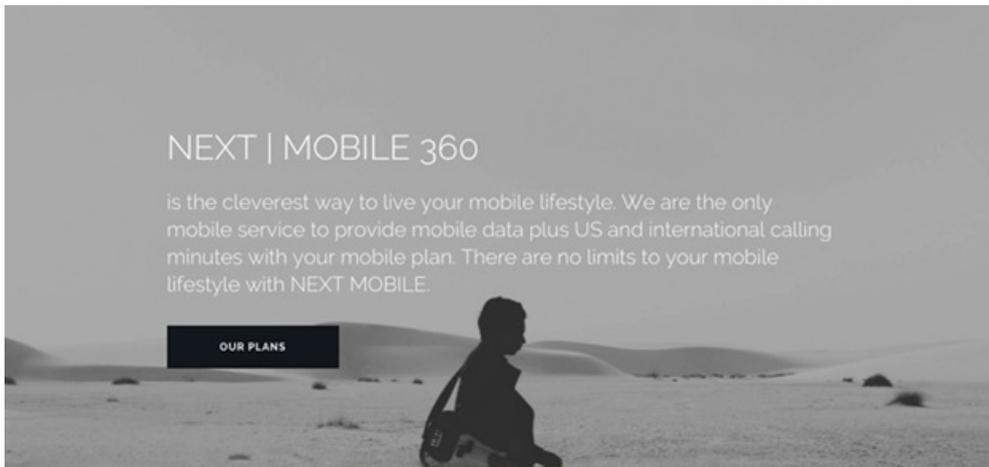
Joint Venture with Telarix. NxtGn has entered into a joint venture with telephony platform industry leader Telarix, Inc. to develop and market the AVYDA Powered by Telarix™ HD telepresence platform. The AVYDA Powered by Telarix™ product is marketed throughout the world by the Telarix sales force.

AVYDA Powered by Telarix. Developed in a joint venture with industry-leader Telarix, Inc., NxtGn’s product AVYDA Powered by Telarix™ HD Video platform allows subscribers to use HD telepresence services that until recently were within reach only of Fortune 500 companies and very high net worth individuals. The AVYDA Powered by Telarix™ HD telepresence platform allows users to connect using their mobile phones, tablets, and personal computers, to telepresence rooms, health care and educational applications, exclusive online entertainment events, online gaming, and other special events. The AVYDA Powered by Telarix™ technology allows HD video conferencing connections point-to-multipoint, with up to 10,000 concurrent calls per session border control (SBC), and the platform is fully compatible with iOS, Android, and Cisco TelePresence operating systems. The platform is currently operational but requires additional updates prior to broad launch.

Vitco Technology. NxtGn telephony and HD video platforms use technology proprietary technology owned by NxtGN, Telarix, and Vitco LLC, US IP Series, a limited liability company formed under the laws of Delaware (“Vitco”), which licenses software solutions to several of the world’s largest and most successful telecommunications carriers. Through December 31, 2015 NxtGn owned an option to acquire Vitco in consideration for \$5,000,000 of the Company’s common stock which expired unexercised. Vitco is currently the owner of 25% of the issued and outstanding shares of NxtGn. Upon exercise of the option, NxtGn would acquire all title, rights and interests in certain proprietary and patented technology and intellectual property owned by Vitco, including Inbound SIP Signaling Server technology, Outbound SIP Signaling Server technology, Packet Cable Accounting Server technology, RADIUS Accounting Server technology, Real-time Call Information Server technology, Routing Application Server technology, Signaling Monitoring & Analysis Server technology, and H.323 Signaling Server technology, as well as all of Vitco’s issued and outstanding shares of NxtGn. Vitco’s technology is currently licensed to NxtGn on a royalty-free basis.

Next Mobile 360

Next Mobile 360. Our Next Mobile subsidiary is a mobile virtual network operator (or “MVNO”) which provides NextMobile360™ branded mobile phones and prepaid voice, text, and data mobile phone services to a customer base currently consisting of approximately 1,000 MVNO Mobile Virtual Network Operators such as Virgin Mobile have been successful at creating a brand, and not own the hardware or network. Next Mobile operates this business pursuant to contracts with Sprint Corporation which allow Next Mobile to use Sprint’s network infrastructure to operate a virtual telecommunications network providing voice, text, and data services of essentially the same quality as those Sprint provides to its own retail subscribers.



As customers worldwide continue to migrate away from legacy telephone and banking systems to enhanced mobility solutions, the Company’s technological advantage and the synergies created by its unique combination of reloadable bank card and mobile virtual network operator rights will make its products increasingly useful to un-banked, under-banked, under-served and other emerging niche markets.

M&M

M&M. Our M&M subsidiary is a wholesale provider of domestic and international long-distance voice, text, and data telephony services to carriers in the United States and throughout the world. M&M holds International and Domestic Section 214 licenses issued by the Federal Communications Commission, and operate the NextMobile360™ business through its wholly-owned subsidiary Next Mobile. M&M has historically provided wholesale long distance telephone service to a number of leading domestic and international carriers.

Network. The M&M Network is the private international network over which the Company is capable of delivering large volumes of highest-quality international long distance voice and data telephony services at significant cost savings. The network’s architecture is scalable and proprietary, and M&M plans to increase capacity as demand increases. The M&M Network consists of four principal elements:

Points of Presence. Points of presence digitize voice signals into data, allowing transmission and retrieval over a broadband data network. M&M’s points of presence, which are the gateways to the M&M Network, are located within its Global Network Operations Center in Miami, Florida, and colocations throughout the world.

The Transmission Medium. This is the Internet, which is the backbone of the M&M Network.

The M&M Voice and Data Platform Controller. This is M&M’s proprietary software and switchless routing platform, which is the heart of the M&M Network. Developed by M&M and NxtGn in cooperation with Cisco, the system can scale to support more than 200,000 simultaneous sessions on a single chassis. M&M’s Next Voice and Data Platform is operated and managed through a dedicated cloud-based network with redundancy.

The M&M Global Network Operations Center. This is the facility which houses the Company’s primary point of presence and the M&M Voice Platform Controller, and from which M&M monitors and manages the voice and data traffic transmitted through the network.

Focus on High-Margin Destinations in Difficult Operating Environments. By focusing its route development operations on building strategic partnerships with providers in difficult telephony operating environments in Latin America, Africa, and other emerging markets, M&M hopes to increase its market reach and overall revenues. By using NxtGn’s proprietary call processing technology, M&M can significantly reduce equipment costs and other capital expenditures required to enter difficult operating environments. The technological advantage which historically made M&M a market leader in long distance traffic terminated in Mexico and other destinations in Latin America will allow M&M to expand its market reach into Africa and the Middle East and other lucrative markets. Licensed FCC 214 long distance wholesaler, owner of Tel3 dba Pinless long distance.

Tel3. During the year ended December 31, 2016, the Company acquired 100% of the outstanding ownership interest in Tel3. Tel3 provides prepaid calling cards to consumers directly and operates in a complimentary space as M&M. Tel3 was originally acquired by the Company’s CEO in a private transaction and sold to the Company for \$10 cash.

Limecom

Limecom was a wholly-owned subsidiary of the Company in 2018 and is a wholesale provider of international long distance Voice over IP (Non-interconnected VoIP) telephony services to carriers in the United States and throughout the world. Limecom Inc is a Florida corporation acquired by the Company on October 24, 2017 in exchange for shares and a future cash payment. Limecom had over \$73 million in gross sales revenue during the year ended December 31, 2018. The Company no longer owns Limecom as of January 2019.

Next Communications, Inc. Bankruptcy

The Company has historically received financing from Next Communications, Inc., an entity controlled by our CEO, and had a related party payable balance of approximately \$ 2,972,000 and approximately \$2,920,000 due to Next Communications, Inc. as of December 31, 2018 and 2017. During the first calendar quarter of 2017, Next Communications, Inc. filed for bankruptcy protection. As a result, the related party payable is being handled by a court appointed trustee as an asset of Next Communications, Inc.

On January 29, 2019, the United States Bankruptcy Court Southern District of Florida Miami Division approved a Plan of Reorganization for Next Communications, Inc., whereby Cuentas Inc. would pay \$600,000 to a specific creditor in consideration for the forgiveness of the balance of the payable to Next Communications, Inc.

Employees

As of December 31, 2018, we have two (2) officers who have employment agreements. We have six full-time employees: our chief financial officer, chief Strategy officer, compliance officer, VP Finance, IT Director and VP Retail Operations for the United States market.

Available Information

We also make our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and related amendments, available free of charge through our website at www.cuentas.com as soon as reasonably practicable after we electronically file such material with (or furnish such material to) the Securities and Exchange Commission. The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered to be part of this Annual Report on Form 10-K.

Copies of the reports and other information we file with the Securities and Exchange Commission may also be examined by the public without charge at 100 F Street, N.E., Room 1580, Washington D.C., 20549, or on the internet at www.sec.gov. Copies of all or a portion of such materials can be obtained from the SEC upon payment of prescribed fees. Please call the SEC at 1-800-SEC-0330 for further information.

ITEM 1A. RISK FACTORS

As a “smaller reporting company”, we are not required to provide the information required by this Item.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease approximately 1,200 square feet of office space at 19 W. Flagler St., Suite 902, Miami, FL, 33130 as our principal offices. We believe these facilities are in good condition, but that we may need to expand our leased space as our business efforts increase.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

On October 14, 2014, one of our operating subsidiaries, NxtGn Inc., and Next Communications, Inc., an entity controlled by our CEO, (collectively the “Plaintiffs”) filed suit in the United States District Court for the Southern district of New York against Viber Media, Inc. (“Viber”). Plaintiffs filed an Amended Complaint asserting four claims: misappropriation of a business idea, misappropriation of trade secrets, breach of contract, and unjust enrichment. Viber moved the Court to dismiss the Amended Complaint.

On March 30, 2016, U.S. District Judge Richard Sullivan issued an opinion and order on Viber’s motion to dismiss. Specifically, the Court ordered that Viber’s motion to dismiss is granted on Plaintiffs’ misappropriation of a business idea claim, but denied as to their misappropriation of trade secrets, breach of contract, and unjust enrichment claims. The Company has not accrued any gains associated with this case as it would be a contingent gain and recorded when received.

On December 20, 2017, a Complaint was filed by J. P. Carey Enterprises, Inc., alleging a claim for approximately \$473,000 related to the Franjose Yglesias-Bertheau filed lawsuit against PLKD listed above. Even though the Company made the agreed payment of \$10,000 on January 2, 2017 and issued 12,003 shares as conversion of the \$70,000 note as agreed in the settlement agreement, the Plaintiff alleges damages which the Company claims are without merit because they received full compensation as agreed. The Company is in the process of defending itself against these claims. The Company has not accrued related to this claim due to the early stages of litigation. On October 20, 2018, J. P. Carey Enterprises, Inc. voluntarily withdrew its claim against the Company. On January 28, 2019, J. P. Carey Enterprises, Inc. filed a similar claim against the Company in Fulton County, Georgia. The Company is vigorously defending its position in this case.

During 2016, Limecom had disputed accounts payable with three (3) carriers, for which the Company entered into separate settlement agreements, totaling approximately \$1,147,000. Under the terms of these settlement agreements, the Company was provided with extended payment terms on the outstanding balances. These settlement agreements are non-interest bearing and include certain default provisions as disclosed in the related agreements. On October 23, 2017, this liability was \$676,000. Limecom repaid \$10,000 from the date of acquisition through December 31, 2017 and \$95,000 during the year ended December 31, 2018. The remaining outstanding principal balance of these settlement agreements amounted to approximately \$571,000 and \$666,000 as of December 31, 2018 and December 31, 2017, respectively. Of these totals, \$571,000 and \$546,000 is current and included in accrued liabilities and \$0 and \$120,000 is long term and represented by other long-term liabilities as of December 31, 2018 and December 31, 2017, respectively.

On February 12, 2018, the Company was served with a complaint from Viber for reimbursement of attorney’s fees and costs totaling \$528,000 arising from the litigation listed above. The Company is vigorously defending their rights in this case as we believe this demand is premature as litigation is ongoing. The Company has not accrued an estimated loss related to this complaint as of December 31, 2018 or December 31, 2017 given the premature nature of the motion.

On October 20, 2016, the Company received a notice that it has been named as a defendant in a suit brought against Next Communications, an entity controlled by our CEO. In addition to being named a defendant, it was requested the Company provide certain documents for the discovery process. Due to the original suit being filed against a related party and not against the Company or its subsidiaries, we believe it likely the Company and its subsidiaries will be dismissed as defendants and has not accrued a contingent loss as of December 31, 2018 or December 31, 2017 as a result.

On July 6, 2017, the Company received notice an existing legal claim against Accent InterMedia (“AIM”) had been amended to include claims against the Company. The claims brought against the Company include failure to comply with certain judgments for collection of funds by the plaintiff while having a controlling interest in AIM via its ownership of Transaction Processing Products (“TPP”). The Company believes the amended case is without merit and that, per its agreement to sell its interest in TPP, any claims brought against AIM or TPP would be the responsibilities of the current interest holders. Due to the original suit being filed against AIM and amended to include the Company after it disposed of its interest in TPP, which had a controlling interest in AIM, we believe it likely the Company and its subsidiaries will be dismissed as defendants.

Prior to October 23, 2017 (the date of Limecom acquisition), Limecom had entered into a settlement agreement with American Express As of the date of the Limecom acquisition, there was a total outstanding balance of \$892,000. The Company made repayments totaling \$435,000 leaving a remaining balance due of \$457,000, as of December 31, 2018. On December 18, 2018, Limecom had entered into a second Amendment of the Settlement Agreement with American Express. Under the second Amendment the Company paid \$25,000 upon on December 19, 2018 and the remaining balance in 13 installments through December 15, 2019. The balance of \$435,000 is included in other accounts. On November 26, 2018, the Company received notice of a complaint through its registered agent regarding a Complaint by American Express claiming damages incurred by Limecom for the amount of \$507,000.

On November 7, 2018, the Company was served with a complaint by a service provider claiming Breach of Contract for \$29,000. The Company has not accrued any losses as of December 31, 2018 related to the complaint given the early nature of the process.

On November 7, 2018, the Company was served with a complaint by IDT Domestic Telecom, Inc. vs the Company and its subsidiary Limecom, Inc. for telecommunications services provided to the Subsidiary during 2018 in the amount of \$50,000. The Company has no accrual as of December 31, 2018 related to the complaint given the early nature of the process. The Company intends to file a motion to dismiss the Company as a defendant since the Company has no contractual relationship with the plaintiff.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

Our common stock is thinly traded. Without an active public trading market, a stockholder may not be able to liquidate their shares. The price for our securities may be highly volatile and may bear no relationship to our actual financial condition or results of operations. Factors we discuss in this report, including the many risks associated with an investment in our securities, may have a significant impact on the market price of our common stock.

The ability of individual stockholders to trade their shares in a particular state may be subject to various rules and regulations of that state. A number of states require that an issuer's securities be registered in their state or appropriately exempted from registration before the securities are permitted to trade in that state. Presently, we have no plans to register our securities in any particular state.

The table below sets forth the high and low bid prices for our common stock as reflected on the OTC Bulletin Board for the last two fiscal years. Quotations represent prices between dealers, do not include retail markups, markdowns or commissions, and do not necessarily represent prices at which actual transactions were affected.

Common Stock

Year Ended December 31, 2018

| | High | Low |
|----------------|----------|---------|
| First Quarter | \$ 6.00 | \$ 1.48 |
| Second Quarter | \$ 9.90 | \$ 3.45 |
| Third Quarter | \$ 12.01 | \$ 7.24 |
| Fourth Quarter | \$ 17.40 | \$ 7.80 |

Common Stock

Year Ended December 31, 2017

| | High | Low |
|----------------|----------|----------|
| First Quarter | \$ 19.50 | \$ 5.61 |
| Second Quarter | \$ 18.30 | \$ 8.70 |
| Third Quarter | \$ 42.87 | \$ 12.30 |
| Fourth Quarter | \$ 12.36 | \$ 4.14 |

Holder of Common Stock

As of December 31, 2018, we had 1,588,942 common shares and 10,000,000 series B preferred shares issued and outstanding. There were an additional 16,667 common shares committed to be issued. Additionally, there were 162,044 options to purchase common stock issued of which 102,044 are exercisable as of December 31, 2018. The Company is authorized to issue up to 360,000,000 shares of common stock.

During the year ended December 31, 2016, the Company declared a special dividend on its outstanding common stock of one share of Class D Redeemable Preferred Stock. The Class D Redeemable Preferred Stock was not issued as of December 31, 2018 and were cancelled.

Dividends

The payment of dividends is subject to the discretion of our Board of Directors and depends, among other things, upon our earnings, our capital requirements, our financial condition, and other relevant factors. We have not paid any dividends upon our common stock since our inception. By reason of our present financial status and our contemplated financial requirements, we may not declare additional dividends upon our common or preferred stock in the foreseeable future.

We have never paid any cash dividends. The dividend declared during the year ended December 31, 2016 totaling \$30,000 will be paid by the issuance of preferred stock. We may not pay additional cash or stock dividends in the foreseeable future on the shares of common or preferred stock. We intend to reinvest any earnings in the development and expansion of our business. Any cash dividends in the future to common stockholders will be payable when, as and if declared by our Board of Directors, based upon the Board's assessment of:

- our financial condition;
- earnings;
- need for funds;
- capital requirements;
- prior claims of preferred stock to the extent issued and outstanding; and
- other factors, including any applicable laws.

Therefore, there can be no assurance that any additional dividends on the common or preferred stock will be declared.

Securities Authorized for Issuance under Equity Compensation Plans

We currently do not maintain any equity compensation plans.

Recent Sales of Unregistered Securities

On January 9, 2018, the Company issued 11,483 shares of its common stock pursuant to a settlement of stock-based liabilities. The fair market value of the shares was \$155,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On January 12, 2018, the Company issued 2,000 shares of its common stock to a note holder in connection with outstanding convertible note payable and convertible accrued interest on convertible notes payable in accordance with a settlement agreement. The fair market value of the shares was \$27,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On February 7, 2018, the Company issued 38,096 shares of its common stock pursuant to a common stock subscription. The fair market value of the shares at the subscription date was \$400,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On September 11, 2018, the Company issued 2,167 shares of its common stock to a note holder in connection with outstanding convertible note payable and convertible accrued interest on convertible notes payable in accordance with a settlement agreement. The fair market value of the shares was \$11,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On September 27, 2018, the Company issued 13,333 shares of its common stock to a consultant, pursuant to a consulting agreement dated September 18, 2018, in consideration for consulting services. The fair market value of the shares at grant date was \$60,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On September 27, 2018, the Company issued 61,002 shares of its common stock pursuant to a settlement of stock-based liabilities. The fair market value of the shares was \$335,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

During 2018, the Company entered into various securities purchase agreement to issue 146,669 shares of common stock in consideration of \$440,000. One of the purchasers is the Company's President and CEO who purchased 16,667 shares. Another purchaser is a current shareholder which controlled by the former owner of Limecom (a fully subsidiary of the Company), who purchased 16,667 shares. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On October 25, 2018, the Company received \$108,000 under a private placement of securities closed on October 25, 2018 and issued 35,834 shares of its common stock. The issuance cost was \$8. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On November 20, 2018 and November 28, 2018, the Company received \$100,000 under a private placement of securities closed on December 13, 2018 and issued 36,667 shares of its common stock and warrants to purchase up to 36,667 shares of its common stock at an exercise price equal to \$3.25 per share. The issuance cost was \$10,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

During December, 2018, the Company received \$248,000 under a private placement of and issued 82,667 shares of its common stock and warrants to purchase up to 82,667 shares of its common stock at an exercise price equal to \$3.25 per share. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On December 13, 2018 the Company issued 30,001 shares of its common stock for the consideration of \$90,000 which it received of under the Securities Purchase Agreement which it entered on September 21st, 2018. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On December 28, 2018, the Company issued 134,327 shares of its common stock pursuant to a settlement of stock-based liabilities. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On January 7, 2019, the Company issued 16,667 shares of its common stock pursuant to a common stock subscription. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On January 7, 2019, the Company received \$50,000 under a private placement of and issued 16,667 shares of its common stock and warrants to purchase up to 16,667 shares of its common stock at an exercise price equal to \$3.25 per share. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On February 12, 2019, the Company issued warrants to purchase up to 35,834 shares of its common stock at an exercise price equal to \$3.25 per share required by the anti-dilution provisions under the October 25, 2018 private placement. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On February 28, 2018, the Company issued 309,497 shares of its common stock pursuant to a settlement of stock-based liabilities. The fair market value of the shares was \$464,000. We issued such shares in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On February 28, 2019, The Company signed a Binding Term Sheet with Optima Fixed Income LLC ("Optima") for a total investment of \$2,500,000 over one year and received the first deposit of \$500,000 on the same date. Under the Binding Term Sheet, it was agreed that the initial invested amount of \$500,000 will in consideration of 166,667 shares of Common Stock of the Company. These shares will be issued in reliance on the exemptions from registration pursuant to Section 4(a)(2) of the Securities Act. It was also agreed that Optima may purchase a Convertible Note in the amount of \$2,000,000, which may be funded on a quarterly basis. The term of the Convertible Note shall be three years and it may be converted with a discount of 25% on the share price at date of conversion, but in any case, not less than \$3 per share. Optima will additionally get rights to vote some of the Series B Preferred. In any case, the total investment in the Company shall be not be less than 25% of the outstanding shares at the first anniversary of this Binding Term Sheet.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

Except for the historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. Our actual results or actions may differ materially from these forward-looking statements for many reasons, including the risks described in "Risk Factors" and elsewhere in this annual report. Our discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes and with the understanding that our actual future results may be materially different from what we currently expect.

OVERVIEW AND OUTLOOK

The Company was incorporated in September 2005 to act as a holding company for its subsidiaries in the technology, telecom and banking industries.

RESULTS OF OPERATIONS

Revenue

The Company generates revenues through the sale and distribution of prepaid telecom minutes and other related telecom services.

| | Year ended December 31, | |
|-----------------------------------|-------------------------|------------------|
| | 2018 | 2017 |
| | Thousands | Thousands |
| Revenue from sales | \$ 24,983 | \$ 52,774 |
| Revenue, sales to related parties | 49,667 | 1,019 |
| Total revenue | <u>\$ 74,650</u> | <u>\$ 53,793</u> |

Revenues during the year ended December 31, 2018 totaled \$ 74,650,000 compared to \$53,793,000 for the year ended December 31, 2017. The increase in the total revenue is mainly due to the acquisition of Limecom which was consolidated for the full twelve months ended December 31, 2018 and was consolidated only in the fourth quarter of 2017. The Company no longer owns Limecom as of January 2019.

Costs of Revenue

Costs of revenue consists of the purchase of wholesale minutes for resale and related telecom platform costs. Cost of revenues during the year ended December 31, 2018 totaled \$74,177,000 compared to \$51,399,000 for the year ended December 31, 2017. The increase in cost of revenues is mainly due to the acquisition of Limecom which was consolidated for the full twelve months ended December 31, 2018 and was consolidated only in the fourth quarter of 2017. The Company no longer owns Limecom as of January 2019.

Operating Expenses

Operating expenses totaled \$5,686,000 during the year ended December 31, 2018 compared to \$3,956,000 during the year ended December 31, 2017 representing a net increase of \$1,730,000. The increase in the operating expenses is mainly due to the loss on disposal and impairment of Limecom's good will and intangible assets in the amount of \$1,917,000 which was recorded as a result of the recession of the Limecom acquisition by the Company. The loss was recorded in accordance with ASC Topic 360; \$1,334,000 of the total impairment charge related to Goodwill and the remaining \$583,000 related to intangible assets.

Other Income

The Company recognized other income of approximately \$1,628,000 during the year ended December 31, 2018 compared to \$78,000 during the year ended December 31, 2017. The net change from the prior period is mainly due to the change in the gain recognized on the fair value measurement of our derivative and stock-based liabilities. The fair value measurements related to derivative liabilities is driven by market inputs and inherently subject to volatility. Gain from Change in Fair Value of stock-based liabilities for year ended December 31, 2018 was \$2,314,000 as compared to a gain of \$497,000 for the year ended December 31, 2017. The gain is attributable to the decrease in the Fair Value of our stock-based liabilities mainly due to the decrease in the share price of our common stock.

Loss from Discounted Operations

| | Year ended December 31, | | |
|-----------------------------------|-------------------------|----------|--------|
| | 2018 | 2017 | Change |
| Loss from discontinued operations | \$ - | \$ (328) | \$ 328 |

Loss from discontinued operations were \$328,000 during the year ended December 31, 2017 compared to \$0 during the year ended December 31, 2018. The loss was the result of discontinuing operations of Transaction Processing Products during the year ended December 31, 2016. The loss from discontinued operations recorded during the year ended December 31, 2017 was the loss recognized on the disposal of the Company's interest in the former subsidiary.

Income Tax Benefit

| | Year ended December 31, | | |
|--------------------|-------------------------|----------|------------|
| | 2018 | 2017 | Change |
| Income tax benefit | \$ - | \$ 1,087 | \$ (1,087) |

The Company recorded an income tax benefit of \$1,087,000 during the year ended December 31, 2017 compared to \$0 during the year ended December 31, 2018. The income tax benefit recognized during the year ended December 31, 2017 is the result of releasing a portion of the Company's valuation allowance against its deferred tax asset equal to the amount of net deferred tax liability assumed with our acquisition of Limecom.

Net Loss

We incurred a net loss of \$3,562,000 for the year ended December 31, 2018, as compared to a net loss of \$708,000 for the year ended December 31, 2017 for the reasons described above.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

As of December 31, 2018, the Company had \$154,000 of cash, total current assets of \$4,033,000 and total current liabilities of \$11,581,000 creating a working capital deficit of \$7,548 thousand. Current assets as of December 31, 2018 consisted of \$154,000 of cash, marketable securities in the amount of \$79,000, accounts receivable net of allowance of \$3,673,000 and other current assets of \$127,000.

As of December 31, 2017, the Company had \$93,000 of cash, total current assets of \$7,935,000 and total current liabilities of \$14,649,000 creating a working capital deficit of \$6,714,000. Current assets as of December 31, 2017 consisted of \$93,000 of cash, accounts receivable net of allowance of \$7,632,000 and other current assets of \$210,000

The decrease in our working capital deficit was mainly attributable to the decrease of \$3,959,000 in our trade account receivables and increase of \$1,886,000 in our short-term related parties' payables, which was mitigated by a decrease of \$2,384,000 in our trade account payables.

Net cash used in operating activities was \$517,000 for the year ended December 31, 2018, as compared to cash used in operating activities of \$309,000 for the year ended December 31, 2017. The Company's primary uses of cash have been for professional support, marketing expenses and working capital purposes.

Net cash used in investing activities was \$9,000 for the year ended December 31, 2018, as compared to net cash generated from investing activities of \$134,000 for the year ended December 31, 2017.

Net cash provided by financing activities was approximately \$587,000 for the year ended December 31, 2018, as compared to approximately \$12,000 for the year ended December 31, 2017. We have principally financed our operations through the sale of our common stock and the issuance of debt. Due to our operational losses, we relied to a large extent on funding received from Next Communications, Inc., an organization in which our Chief Executive Officer and Chairman holds a controlling equity interest and holds an executive position. During the first calendar quarter of 2017, Next Communications, Inc. filed for bankruptcy protection. As a result, the related party payable is being handled by a court appointed trustee as an asset of Next Communications, Inc. and the Company may need to begin repaying the amounts due on a more fixed schedule. There was \$2,972,000 and \$2,920,000 due to Next Communications, Inc as of December 31, 2018 and December 31, 2017, respectively. As discussed in an 8-K filed with the SEC on February 5, 2019, On January 29, 2019, the United States Bankruptcy Court Southern District of Florida Miami Division approved a Plan of Reorganization for Next Communications, Inc., whereby Cuentas Inc. would pay \$600,000 to a specific creditor in consideration from forgiveness of the balance of the payable balance. Our financial statements have been prepared assuming that the Company will continue as a going concern.

These above conditions raise substantial doubt about our ability to continue as a going concern. Although we anticipate that cash resources will be available to the Company through its current operations, it believes existing cash will not be sufficient to fund planned operations and projects investments through the next 12 months. Therefore, we are still striving to increase our sales, attain profitability and raise additional funds for future operations and any meaningful equity or debt financing will likely result in significant dilution to our existing stockholders. There is no assurance that additional funds will be available on terms acceptable to us, or at all.

Our liquidity needs for the next 12 months and beyond are principally for the funding of our operations and the development and the launch of the Cuentas GPR Card. Based on the foregoing, On February 28, 2019, The Company signed a Binding Term Sheet with Optima Fixed Income LLC ("Optima") for a total investment of \$2,500,000 over one year and received the first deposit of \$500,000 on the same date. Management believes that those funds will provide the required financing of the operations of the Company and the launch of the Cuentas GPR Card. Nevertheless, the Company is continuing to engage in various strategies to ensure the continuance of operations for the foreseeable future.

Since inception, we have financed our cash flow requirements through issuance of common stock, related party advances and debt. As we expand our activities, we may, and most likely will, continue to experience net negative cash flows from operations. Additionally, we anticipate obtaining additional financing to fund operations through common stock offerings, to the extent available, or to obtain additional financing to the extent necessary to augment our working capital. In the future we need to generate sufficient revenues from sales in order to eliminate or reduce the need to sell additional stock or obtain additional loans. There can be no assurance we will be successful in raising the necessary funds to execute our business plan.

We anticipate that we will incur operating losses in the next twelve months. Our lack of operating history makes predictions of future operating results difficult to ascertain. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets. Such risks for us include, but are not limited to, an evolving and unpredictable business model and the management of growth.

To address these risks, we must, among other things, implement and successfully execute our business and marketing strategy surrounding our Cuentas braded general-purpose reloadable cards, continually develop and upgrade our website, respond to competitive developments, lower our financing costs and specifically our accounts receivable factoring costs, and attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so can have a material adverse effect on our business prospects, financial condition and results of operations.

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements and does not anticipate entering into any such arrangements in the foreseeable future.

Impact of Inflation

The Company does not expect inflation to be a significant factor in operation of the business.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements between the Company and any other entity that have, or are reasonably likely to have, a current or future effect on financial conditions, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements, which we discuss under the heading “Results of Operations” following this section of our MD&A. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

We set forth below those material accounting policies that we believe are the most critical to an investor’s understanding of our financial results and condition and that require complex management judgment.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. As applicable to the consolidated financial statements, the most significant estimates and assumptions relate to allowances for impairment of goodwill, impairment of intangible assets, fair value of stock-based compensation and fair value calculations related to embedded derivative features of outstanding convertible notes payable and Going Concern.

Goodwill and Intangible Assets

Goodwill represents the excess cost over the fair value of the assets of an acquired business. Goodwill and intangible assets acquired in a business combination accounted for as a purchase and determined to have an indefinite useful life are not amortized but are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. The Company evaluates the possible impairment of goodwill annually as part of its reporting process for the fourth quarter of each fiscal year. The Company determines the fair value of each subsidiary the goodwill relates to and compares the fair value to the carrying amount of the subsidiary. To the extent the carrying amount of the subsidiary exceeds the fair value of it, an impairment loss is recorded.

Impairment of Long-Lived Assets

In accordance with ASC Topic 360, formerly SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of its asset based on estimates of its undiscounted future cash flows. If these estimated future cash flows are less than the carrying value of the asset, an impairment charge is recognized for the difference between the asset's estimated fair value and its carrying value.

Derivative Liabilities and Fair Value of Financial Instruments

Fair value accounting requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments and measurement of their fair value for accounting purposes. In assessing the convertible debt instruments, management determines if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring measurement. If the instrument is not considered conventional convertible debt under ASC 470, the Company will continue its evaluation process of these instruments as derivative financial instruments under ASC 815.

Once determined, derivative liabilities are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives.

Fair value of certain of the Company's financial instruments including cash, accounts receivable, account payable, accrued expenses, notes payables, and other accrued liabilities approximate cost because of their short maturities. The Company measures and reports fair value in accordance with ASC 820, "Fair Value Measurements and Disclosure" defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value investments.

Fair value, as defined in ASC 820, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset should reflect its highest and best use by market participants, principal (or most advantageous) markets, and an in-use or an in-exchange valuation premise. The fair value of a liability should reflect the risk of nonperformance, which includes, among other things, the Company's credit risk.

Valuation techniques are generally classified into three categories: the market approach; the income approach; and the cost approach. The selection and application of one or more of the techniques may require significant judgment and are primarily dependent upon the characteristics of the asset or liability, and the quality and availability of inputs. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also provides fair value hierarchy for inputs and resulting measurement as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity, and that are significant to the fair values.

Fair value measurements are required to be disclosed by the Level within the fair value hierarchy in which the fair value measurements in their entirety fall. Fair value measurements using significant unobservable inputs (in Level 3 measurements) are subject to expanded disclosure requirements including a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following: (i) total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings, and a description of where those gains or losses included in earnings are reported in the statement of income.

The Company records a debt discount related to the issuance of convertible debts that have conversion features at adjustable rates. The debt discount for the convertible instruments is recognized and measured by allocating a portion of the proceeds as an increase in additional paid-in capital and as a reduction to the carrying amount of the convertible instrument equal to the fair value of the conversion features. The debt discount will be accreted by recording additional non-cash gains and losses related to the change in fair values of derivative liabilities over the life of the convertible notes.

Revenue recognition

The Company follows paragraph 605-10-S99 of the FASB *Accounting Standards Codification* for revenue recognition. The Company will recognize revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. The Company primarily generates revenues through the brokering of sales of minutes from one telecommunications carrier to another through Limecom and to a lesser extent the sales of prepaid calling minutes to consumers through its Tel3 division. While the Company collects payment for such minutes in advance, revenue is recognized upon delivery to and consumption of minutes by the consumer. Minutes are forfeited by the consumer after 12 consecutive months of non-use at which point the Company recognizes revenue from the forfeiture of prepaid minutes. Next Cala generated revenues from commissions earned from Incomm, a leading financial services provider, and NxtGn generated revenues from the sale of voice over IP platform software during the years ended December 31, 2018 and 2017.

Stock-Based Compensation

The Company applies ASC 718-10, "Share-Based Payment," which requires the measurement and recognition of compensation expenses for all share-based payment awards made to employees and directors (including employee stock options under the Company's stock plans) based on estimated fair values.

ASC 718-10 requires companies to estimate the fair value of equity-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's statement of operations.

The Company recognizes compensation expenses for the value of non-employee awards based on the straight-line method over the requisite service period of each award, net of estimated forfeitures.

The Company estimates the fair value of stock options granted as equity awards using a Black-Scholes options pricing model. The option-pricing model requires a number of assumptions, of which the most significant are share price, expected volatility and the expected option term (the time from the grant date until the options are exercised or expire). Expected volatility is estimated based on volatility of similar companies in the technology sector. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from governmental zero-coupon bonds with an equivalent term. The expected option term is calculated for options granted to employees and directors using the "simplified" method. Grants to non-employees are based on the contractual term. Changes in the determination of each of the inputs can affect the fair value of the options granted and the results of operations of the Company.

Recently Issued Accounting Standards

On February 14, 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amendments in this Update affect any entity that is required to apply the provisions of Topic 220, Income Statement—Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments in this Update are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized.

On March 9, 2018 the FASB issued ASU 2018-04, Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update). The amendments in this Update supersedes various SEC paragraphs and adds an SEC paragraph pursuant to the issuance of Staff Accounting Bulletin No. 117. This amendment is effective upon issuance.

On March 14, 2018 the FASB issued Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This amendment is effective upon issuance.

In June 2018, the FASB issued Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update related to separating components of a contract are the same as the effective date and transition requirements in Update 2016-02. For entities that have adopted Topic 842 before the issuance of this Update, the transition and effective date of the amendments related to separating components of a contract in this Update are as follows: 1. The practical expedient may be elected either in the first reporting period following the issuance of this Update or at the original effective date of Topic 842 for that entity. 2. The practical expedient may be applied either retrospectively or prospectively. All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this Update must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update improve the effectiveness of fair value measurement disclosures and modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendments apply to reporting entities that are required to make disclosures about recurring or nonrecurring fair value measurements and should improve the cost, benefit, and effectiveness of the disclosures. ASU 2018-13 categorized the changes into those disclosures that were removed, those that were modified, and those that were added. The primary disclosures that were removed related to transfers between Level 1 and Level 2 investments, along with the policy for timing of transfers between levels. In addition, disclosing the valuation processes for Level 3 fair value measurements was removed. The amendments are effective for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18 “Collaborative Arrangements (Topic 808)—Clarifying the interaction between Topic 808 and Topic 606”. The amendments provide guidance on whether certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606. It also specifically (i) addresses when the participant should be considered a customer in the context of a unit of account, (ii) adds unit-of-account guidance in ASC 808 to align with guidance in ASC 606, and (iii) precludes presenting revenue from a collaborative arrangement together with revenue recognized under ASC 606 if the collaborative arrangement participant is not a customer. The guidance will be effective for fiscal years beginning after December 15, 2019. Early adoption is permitted and should be applied retrospectively. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable as we are currently considered a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1 through F-36 of this Form 10-K.

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

We have had no disagreements with our independent auditors on accounting or financial disclosures.

On December 21, 2017, the Company voted unanimously to dismiss Assurance Dimensions (“AD”) as the Company’s independent registered public accounting firm. The decision to dismiss AD was in no way due to a lack of confidence or quality of work by AD. The Board was satisfied with the work done by AD and had no issues with their work product.

The audit reports of AD on the consolidated financial statements of the Company for each of the two most recent fiscal years ended December 31, 2016 and December 31, 2015 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company’s most recent fiscal year ended December 31, 2016 and during the subsequent interim period from January 1, 2017 through December 22, 2017, (i) there were no disagreements with AD on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to AD’s satisfaction, would have caused AD to make reference to the subject matter of the disagreement in connection with its reports and (ii) there were no “reportable events” as defined in Item 304(a)(1)(v) of Regulation S-K.

On February 23, 2018, the Company appointed Marcum LLP (“Marcum”) as its new independent registered public accounting firm to audit the Company’s consolidated financial statements as of and for the year ended December 31, 2017. The decision to retain Marcum was approved by the Board of Directors of the Company.

During the Company’s fiscal years ended December 31, 2017 and 2016 and the subsequent interim period through February 23 2018, neither the Company nor anyone on its behalf has consulted with Marcum regarding (i) the application of accounting principles to a specific transaction, either completed or proposed or (ii) the type of audit opinion that might be rendered on the Company’s financial statements and, neither a written report nor oral advice was provided to the Company that Marcum concluded was an important factor considered by the Company in reaching a decision as to accounting, auditing or financial reporting issues, or (iii) any matter that was the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions), or (iv) any “reportable event” (as described in Item 304(a)(1)(v) of Regulation S-K).

On November 28, 2018, the Audit Committee of the board of directors (the “Board”) of the Company approved the appointment of Halperin Ilanit, CPA (“Halperin”) to serve as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018. During the fiscal years ended December 31, 2017 and 2016, and the subsequent interim period through November 28, 2018, neither the Company, nor anyone acting on the Company’s behalf, has consulted with Halperin regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s consolidated financial statements, in any case where either a written report or oral advice was provided to the Company by Halperin that Halperin concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a “disagreement” (within the meaning of Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a “reportable event” (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

ITEM 9A (T). CONTROLS AND PROCEDURES

Our Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the year end covered by this Report. Based on that evaluation, they have concluded that, as of December 31, 2018 and 2017, our disclosure controls and procedures are designed at a reasonable assurance level and are not effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control, as is defined in the Securities Exchange Act of 1934. These internal controls are designed to provide reasonable assurance that the reported financial information is presented fairly, that disclosures are adequate and that the judgments inherent in the preparation of financial statements are reasonable. There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and overriding of controls. Consequently, an effective internal control system can only provide reasonable, not absolute, assurance with respect to reporting financial information.

Our internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that in reasonable detail accurately and fairly reflect our transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles and the receipts and expenditures of company assets are made and in accordance with our management and directors authorization; and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Management has undertaken an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) (2013 Framework). Based upon this evaluation, management concluded that our internal control over financial reporting was not effective as of December 31, 2018.

Based on that evaluation, management concluded that, during the period covered by this report, such internal controls and procedures were not effective due to the following material weakness identified:

- Lack of appropriate oversight of third-party service providers,
- Lack of appropriate segregation of duties,
- Lack of information technology (“IT”) controls over revenue,
- Lack of adequate review of internal controls to ascertain effectiveness,
- Lack of control procedures that include multiple levels of supervision and review, and
- There is an overreliance upon independent financial reporting consultants for review of critical accounting areas and disclosures and material, nonstandard transactions.

Implemented or Planned Remedial Actions in response to the Material Weaknesses

We will continue to strive to correct the above noted weakness in internal control once we have adequate funds to do so. We believe appointing a director who qualifies as a financial expert will improve the overall performance of our control over our financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 of compliance with the policies or procedures may deteriorate. During the last six months, we have hired a full time Chief Financial Officer to begin improving our existing control environment.

Changes in Internal Control over Financial Reporting

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

The Company’s management, including the Chief Executive Officer and Principal Financial Officer, do not expect that its disclosure controls or internal controls will prevent all errors or 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. In addition, 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 a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The names of our director and executive officers and their ages, positions, and biographies are set forth below. Our executive officers are appointed by, and serve at the discretion of, our board of directors.

Executive Officers

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-------------------|------------|--------------------------------------|
| Arik Maimon | 43 | Chief Executive Officer and Director |
| Ran Daniel | 50 | Chief Financial Officer |
| Michael De Prado | 48 | President and Director |
| Adiv Baruch | 56 | Chief Strategy Officer and Director |
| Richard J. Berman | 76 | Director |
| Natali Dadon | 31 | Director |

Directors, Executive Officers, Promoters and Control Persons

Arik Maimon is a founder of the Company and has served as its CEO since its inception. In addition to co-founding the Company and its Next CALA and NxtGn subsidiaries, Mr. Maimon founded the Company's subsidiaries Next Mobile, and M&M. Prior to founding the Company and its subsidiaries, Mr. Maimon founded and ran successful telecommunications companies operating primarily in the United States and Mexico. In 1998, Mr. Maimon founded and ran a privately-held wholesaler of long-distance telecommunications services which, later, under Mr. Maimon's management, grew from a start up to a profitable enterprise with more than \$100 million in annual revenues. Mr. Maimon serves on the Company's board of directors due to the perspective and experience he brings as our co-founder, Chairman, CEO, and as our largest stockholder.

Ran Daniel has served as Chief Financial Officer since November 23, 2018. He has over 20 years of financial and business management experience, accounting, auditing, business forecasting, M&A, due diligence, SEC regulations and internal control experiences. He was responsible for the financial and accounting functions in several companies and has extensive experience working as a CFO in both rapidly growing companies and publicly traded companies. He has worked with real estate, fashion, high-tech companies as well as remote institutional and high net worth individuals. Ran is licensed as a CPA, CFA and is admitted to practice law in New York. Mr. Daniel is licensed as a Certified Public Accountant (CPA) in the United States and Israel, admitted to practice law in the State of New York. Mr. Daniel holds a Bachelor of Economics, a Bachelor of Accounting and an MBA in Finance from the Hebrew University, as well as a Graduate Degree in Law from the University of Bar-Ilan.

Michael A. De Prado is a founder of the Company and has served as its President since its inception. In addition to co-founding the Company, Mr. De Prado co-founded the Company's Next CALA subsidiary. Prior to founding the Company and Next CALA, Mr. De Prado spent 20 years in executive positions at various levels of responsibility in the banking, technology, and telecommunications industries. As President of Sales at telecommunications company Radiant/Ntera, Mr. De Prado grew Radiant/Ntera's sales to more than \$200 million in annual revenues. At theglobe.com, Mr. De Prado served as President, reporting directing to Michael S. Egan. Mr. De Prado serves on the Company's board of directors due to the perspective and experience he brings as our co-founder, President, and COO.

Adiv Baruch has been a director of the Company since May 2016 and the Company's Chief Strategy Officer since February 2018. Mr. Baruch serves as Chairman of Jerusalem Technology Investments Ltd. ("JTI"), which is engaged in the business of identifying, investing in, and mentoring emerging software and medical devices technology companies. JTI is a publicly-traded company whose shares are listed on the Tel-Aviv Stock Exchange. He also currently serves as Chairman of Maayan Ventures, a platform for investments in innovative technology companies, as President of Nyotron, a global cyber technology company, and as Chairman of Covertix, whose patented technology delivers real-time, non-invasive control, protection, and tracking of confidential files. Mr. Baruch has served as a director of the Bank of Jerusalem, and he served as CEO of BOS Better Online Solutions, which, under this leadership, grew into a highly-successful company traded on NASDAQ under the symbol BOSC. Throughout his career, he has championed development and support of new talent in the high tech and entrepreneurial arenas. Mr. Baruch is the Chairman of Ness College, which is a leader in educating Israeli technology professionals and entrepreneurs.

Natali Dadon has served as a Director of the Company since its inception. Prior to joining the Company's board of directors in a non-executive capacity, Ms. Dadon served for five years as the Vice President for Sales of a privately-held wholesale long distance telecommunications services provider with more than \$100 million in annual revenues. Ms. Dadon serves on the Company's board of directors due to the perspective and experience she brings as a seasoned telecommunications executive and one of the first investors in Next CALA.

Richard J. Berman has served as a Director of the Company since September, 2018. Mr. Berman's career spans over 35 years of venture capital, senior management and merger and acquisitions experience. He possesses a strong track record of providing senior leadership as an executive and Board member of public and private companies, with extensive experience in many business sectors including finance, technology, retail, bio-science and real estate. Richard currently serves as a Director of four public companies: Advaxis, Inc., Catasys, Inc., Cryoport Inc and Immuron. He also served as a Director or Officer of more than a dozen public and private companies, including Chairman of National Investment Managers, a company with \$12 billion in pension administration assets, from 2006 to 2011. Mr. Berman has a strong track record of providing corporate leadership in the financial services sector, serving as Director of two leading private companies, Strategic Funding Source, an alternative lender to small businesses; and Honor Capitol, an organization that provides auto and home insurance loans to consumers.

Family Relationships

Natali Dadon and Arik Maimon are siblings.

Indemnification of Directors and Officers

Our Articles of Incorporation and Bylaws both provide for the indemnification of our officers and directors to the fullest extent permitted by the Florida law.

Limitation of Liability of Directors

Pursuant to the Florida Statutes, our Articles of Incorporation exclude personal liability for our Directors for monetary damages based upon any violation of their fiduciary duties as Directors, except as to liability for any breach of the duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or any transaction from which a Director receives an improper personal benefit. This exclusion of liability does not limit any right which a Director may have to be indemnified and does not affect any Director's liability under federal or applicable state securities laws. We have agreed to indemnify our directors against expenses, judgments, and amounts paid in settlement in connection with any claim against a Director if he acted in good faith and in a manner he believed to be in our best interests.

Election of Directors and Officers

Directors are elected to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

Involvement in Certain Legal Proceedings

No Executive Officer or Director of the Corporation has been the subject of any Order, Judgment, or Decree of any Court of competent jurisdiction, or any regulatory agency permanently or temporarily enjoining, barring suspending or otherwise limiting him/her from acting as an investment advisor, underwriter, broker or dealer in the securities industry, or as an affiliated person, director or employee of an investment company, bank, savings and loan association, or insurance company or from engaging in or continuing any conduct or practice in connection with any such activity or in connection with the purchase or sale of any securities.

No Executive Officer or Director of the Corporation has been convicted in any criminal proceeding (excluding traffic violations) or is the subject of a criminal proceeding which is currently pending.

No Executive Officer or Director of the Corporation is the subject of any pending legal proceedings.

Financial Expert

We do not have a financial expert. We believe the cost related to retaining a financial expert at this time is prohibitive. Further, because of our start-up operations, we believe the services of a financial expert are not warranted.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our executive officers and directors, and persons who beneficially own more than ten percent of an issuer's common stock, which has been registered under Section 12 of the Exchange Act, to file initial reports of ownership and reports of changes in ownership with the SEC. Based upon a review of the copies of such forms furnished to us and written representations from our executive officers and Directors, we believe that as of the date of this filing they were all current in their filings.

Corporate Governance

Corporate Governance

Board of Directors

We currently have five directors serving on our Board of Directors. A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business. The directors must be present at the meeting to constitute a quorum. However, any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board consent in writing to the action.

We are not a listed issuer, as such term is defined in Rule 10A-3 of the Exchange Act, and are therefore not subject to director independence standards. However, using the definition of "independent director" from NASDAQ Rule 5605(a)(2), the following directors would be considered independent: Richard Berman and Adiv Baruch.

Our directors are elected by the vote of a majority in interest of the holders of our Common Stock and Preferred B shares and hold office until the earlier of his or her death, resignation, removal or expiration of the term for which he or she was elected and until a successor has been elected and qualified. The Board may also appoint directors to fill vacancies on the Board created by the death, resignation or removal of any director. Our Board are elected every three years.

Committees of the Board of Directors

On September 13, 2018, our Board designated the following three committees of the Board: An Audit Committee, a Compensation Committee and an Administration and Management Committee.

Richard Berman is the Chairman of the Audit Committee, and Adiv Baruch is a member. The Audit Committee is responsible for, among other things, overseeing the financial reporting and audit process and evaluating our internal controls over financial reporting.

The Administration and Management Committee is responsible for, among other things, managing and overseeing daily operations and transactions in the ordinary course of our business.

Richard J. Berman is the Chairman of the Compensation Committee, and Adiv Baruch is a member. The Compensation Committee is responsible for, among other things, establishing and overseeing the Company's executive and equity compensation programs, establishing performance goals and objectives, and evaluating performance against such goals and objectives.

We do not have a Nominating Committee or Nominating Committee Charter. Our Board of Directors performs some of the functions associated with a Nominating Committee. We have elected not to have a Nominating Committee in that we are an initial-stages operating company with limited operations and resources.

The Board has determined that Richard J. Berman and Adiv Baruch would each be considered "independent directors" within the meaning of the NASDAQ and Exchange Act rules.

Compliance under Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who own more than 10% of our outstanding shares of Common Stock (collectively, "Reporting Persons") to file with the SEC initial reports of ownership and reports of changes in ownership in our Common Stock and other equity securities. To the Company's knowledge, based solely on its review of the copies of such reports received or written representations from certain Reporting Persons that no other reports were required, the Company believes that during its fiscal year ended December 31, 2018, all filing requirements applicable to the Reporting Persons were timely met.

Stockholder Communications

Although we do not have a formal policy regarding communications with the Board, stockholders may communicate with the Board by writing to us at 19 W. Flagler St, Suite 902, Miami, FL 33130, Attention: Stockholder Communication. Stockholders who would like their submission directed to a member of the Board may so specify, and the communication will be forwarded, as appropriate.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation

Summary Compensation Table

The following table sets forth certain information concerning the annual compensation of our Chief Executive Officer and our other executive officers during the last two fiscal years.

| (a) Name and Principal Position | (b) Year | (c) Salary | (d) Bonus | (f) Option Awards | (g) Non-equity incentive plan compensation | (h) Nonqualified deferred compensation earnings | (i) All Other Compensation | (j) Total Compensation |
|---------------------------------------|-------------|---------------|--------------|-------------------------|---|---|----------------------------------|------------------------------|
| Arik Maimon CEO | 2018 | \$ 180,000 | \$ 80,000 | \$ 302,984 | - | - | \$ 30,000 | \$ 592,984 |
| | 2017 | 180,000 | \$ 70,000 | \$ 703,169 | - | - | 28,000 | \$ 981,168 |
| Adiv Baruch Director and CSO | 2018 | \$ 110,000 | | | | | | \$ 110,000 |
| | 2017 | | | | | | | |
| Michael De Prado President | 2018 | \$ 130,000 | \$ 80,000 | - | - | - | \$ 22,000 | \$ 232,000 |
| | 2017 | 130,000 | \$ 70,000 | \$ 73,033 | - | - | \$ 24,000 | \$ 297,033 |
| Ran Daniel CFO | 2018 | \$ 5,000 | - | - | - | - | - | \$ 5,000 |
| | 2017 | - | - | - | - | - | - | - |

Outstanding Equity Awards at Fiscal Year End. As of December 31 2018, there were 137,044 stock options issued with a weighted average exercise price of \$9.18 and 77,044 exercisable with a weighted average exercise price of \$13.99. As of December 31 2017, there were 80,377 stock options issued with a weighted average exercise price of \$34.80 and 58,155 exercisable with a weighted average exercise price of \$27.30 as of December 31, 2017.

The fair value of the options that were issued in 2017 do not qualify for equity treatment and are included in stock based liabilities as of December 31, 2017.

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

The following table sets forth, as of December 31, 2018, certain information with respect to the beneficial ownership of shares of our common stock by: (i) each person known to us to be the beneficial owner of more than five percent (5%) of our outstanding shares of common stock, (ii) each director or nominee for director of our Company, (iii) each of the executives, and (iv) our directors and executive officers as a group. Unless otherwise indicated, the address of each shareholder is c/o our company at our principal office address:

| Beneficial Owner | Address | Percent of Class (**) | Number of Shares Beneficially Owned (*) |
|--|--|------------------------------|--|
| Arik Maimon CEO | 19 W. Flagler St, Suite 902 Miami, FL 33130 | 19.83% | 301,763 |
| Michael De Prado President | 19 W. Flagler St, Suite 902 Miami, FL 33130 | 5.44% | 82,782*** |
| Adiv Baruch Chief Strategy Officer and Director | 19 W. Flagler St, Suite 902 Miami, FL 33130 | 2.19% | 33,334 |
| Natali Dadon Director | 4019 194 th Trail Golden Beach, FL 33160 | 1.00% | 15,217 |
| Orlando Taddeo President of Limecom | 19 W. Flagler St, Suite 902 | 8.59% | 130,669 |
| Harrison Vargas | 10007 Vestal Place Coral Springs, Florida 33071 | 7.14% | 104,310 |
| Richard J. Berman Director | 19 W. Flagler St, Suite 902 Miami, FL 33130 | 0.66% | 10,000 |
| All Directors and Officers as a Group (4 persons) | | 44.85% | 678,075 |

(*) Beneficial ownership is determined in accordance with the rules of the SEC which generally attribute Beneficial ownership of securities to persons who possess sole or shared voting power and/or investment power with respect to those securities. Unless otherwise indicated, voting and investment power are exercised solely by the person named above or shared with members of such person's household. This includes any shares such person has the right to acquire within 60 days.

(**) Percent of class is calculated on the basis of the number of shares outstanding on December 31, 2018 of 1,521,471

Changes in Control

There are no arrangements, known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

(1) AUDIT FEES

The Company incurred audit fees during the year ended December 31, 2018 with Halperin Ilanit CPA totaling approximately \$50,000, with Marcum, LLP approximately \$219,500 and with Assurance Dimensions approximately \$5,000. The Company incurred audit fees during the year ended December 31, 2017 with Marcum, LLP totaling approximately \$150,000 and with Assurance Dimensions of approximately \$45,000.

Audit-Related Fees

Our principal accountant did not provide audit related services that are reasonably related to the performance of our audit or review of our financial statements for the fiscal years ended December 31 2018 and for the fiscal years ended December 31 2017.

Tax Fees

There were no fees billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning for the fiscal years ended December 31 2018 and for the fiscal years ended December 31 2017.

All Other Fees

There were no other fees billed for products or services provided by our principal accountant for the fiscal years ended December 31, 2018 and 2017.

Our audit committee reviewed or ratified the engagement of the Company's principal accountant or the fees disclosed above.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) Consolidated Financial Statements

ITEM 16. FORM 10-K SUMMARY

None.

CUENTAS INC.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS | F-2 |
| CONSOLIDATED FINANCIAL STATEMENTS: | |
| Consolidated Balance sheets as of December 31, 2018, and December 31, 2017 | F-3 |
| Consolidated Statements of operations for the years ended December 31, 2018 and 2017 | F-4 |
| Consolidated Statements of comprehensive loss for the years ended December 31, 2018 and 2017 | F-5 |
| Statements of changes in stockholders' equity deficit for the years ended December 31, 2018 and 2017 | F-6 |
| Consolidated Statements of cash flows for the years ended December 31, 2018 and 2017 | F-8 |
| Notes to consolidated financial statements | F-9 |



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
CUENTAS INC.**

Opinion on the Consolidated Financial Statements

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

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, as of December 31, 2018, the Company has incurred accumulated deficit of \$18,070 thousands, stockholder's deficit of \$6,450 thousands and negative operating cash flows. These factor among others, as discussed in Note 1 to the consolidated financial statements raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Basis for Opinion

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

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

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

/s/Halperin Ilanit
Certified Public Accountants (Isr.)

Tel Aviv, Israel
April 15, 2019
We have served as the Company's auditor since 2018

30 A'arba'a st. A'arba'a towers, Tel Aviv 6473926 | tel. +972-3-9335474 | fax. +972-3-9335466 | www.halperin-cpa.co.il

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands except share and per share data)

| | <u>December 31,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|--|------------------------------------|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 154 | 93 |
| Marketable securities | 79 | - |
| Trade account receivables, net | 3,673 | 7,632 |
| Other current assets | 127 | 210 |
| Total current assets | <u>4,033</u> | <u>7,935</u> |
| Property and Equipment, net (Note 5) | 13 | 6 |
| Marketable securities | - | 250 |
| Intangible assets (Note 2) | 1,924 | 2,970 |
| Goodwill (Note 2) | - | 1,334 |
| Total assets | <u>5,970</u> | <u>12,495</u> |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 3,184 | 5,568 |
| Other accounts liabilities (Note 6) | 2,560 | 1,992 |
| Deferred revenue | 583 | 686 |
| Notes and Loan payable | 110 | 146 |
| Convertible notes payable, net of discounts and debt issue costs (Note 7) | - | 49 |
| Derivative liability (Note 8) | - | 212 |
| Related parties' payables (Note 9) | 4,919 | 3,033 |
| Stock based liabilities | 225 | 2,963 |
| Total current liabilities | <u>11,581</u> | <u>14,649</u> |
| Related party payables – Long term (Note 9) | 806 | 2,536 |
| Derivative liabilities – long term (Note 8) | 33 | 362 |
| Other long-term liabilities | - | 120 |
| TOTAL LIABILITIES | <u>12,420</u> | <u>17,667</u> |
| STOCKHOLDERS' DEFICIT (Note 12) | | |
| Common stock subscribed | 100 | 400 |
| Series B preferred stock, \$0.001 par value, designated 10,000,000; 10,000,000 issued and outstanding as of December 31, 2018 and 2017, respectively | 10 | 10 |
| Common stock, authorized 360,000,000 shares, \$0.001 par value; 1,588,942 and 1,140,398 issued and outstanding as of December 31, 2018 and December 31, 2017, respectively | 2 | 1 |
| Additional paid in capital | 12,160 | 9,555 |
| Accumulated deficit | (18,070) | (14,208) |
| Accumulated other comprehensive income | - | (300) |
| Total Cuentas Inc. stockholders' deficit | <u>(5,798)</u> | <u>(4,542)</u> |
| Non-controlling interest in subsidiaries | (652) | (630) |
| Total stockholders' deficit | <u>(6,450)</u> | <u>(5,172)</u> |
| Total liabilities and stockholders' deficit | <u>5,970</u> | <u>12,495</u> |

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

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. dollars in thousands except share and per share data)

| | Year Ended December 31, | |
|---|----------------------------|-------------|
| | 2018 | 2017 |
| REVENUE | 74,650 | 53,793 |
| COST OF REVENUE | 74,177 | 51,399 |
| GROSS PROFIT | 473 | 2,394 |
| OPERATING EXPENSES | | |
| General and administrative | 3,769 | 3,956 |
| Loss on disposal and impairment of assets (Note 2) | 1,917 | - |
| TOTAL OPERATING EXPENSES | 5,686 | 3,956 |
| OPERATING LOSS | (5,213) | (1,562) |
| OTHER INCOME | | |
| Other income (expense), net | (331) | 730 |
| Interest expense | (978) | (1,054) |
| Gain (loss) on derivative liability | 524 | (975) |
| Gain from Change in extinguishment of debt | 99 | 880 |
| Gain from Change in fair value of stock-based liabilities | 2,314 | 497 |
| TOTAL OTHER INCOME, NET | 1,628 | 78 |
| Loss from discontinued operations (Note 3) | - | (328) |
| NET LOSS BEFORE INCOME TAX | (3,585) | (1,812) |
| Income tax benefit | - | 1,087 |
| NET LOSS BEFORE CONTROLLING INTEREST | (3,585) | (725) |
| NET INCOME ATTRIBUTIBLE TO NON-CONTROLLING INTEREST | 23 | 17 |
| NET LOSS ATTRIBUTIBLE TO NET LOSS ATTRIBUTIBLE TO CUENTAS INC. | (3,562) | (708) |
| Basic and Diluted net loss per share | (2.90) | (*) (0.78) |
| Weighted average number of basic and diluted common shares outstanding | 1,227,992 | (*) 902,744 |

(*) Retrospectively adjusted to reflect the 300-for-1 reverse stock split

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

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(U.S. dollars in thousands except share and per share data)

| | For the Year Ended | |
|--|---------------------------|-------------|
| | December 31, | |
| | 2018 | 2017 |
| Net loss | \$ (3,585) | \$ (725) |
| Other comprehensive income (loss) | | |
| Adoption of ASU 2016-01 | 300 | (300) |
| Total comprehensive loss | (3,285) | (1,025) |
| Comprehensive income attributable to non-controlling interest | 23 | 17 |
| Comprehensive loss attributable to shareholders | \$ (3,262) | \$ (1,008) |

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

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
(U.S. dollars in thousands, except share and per share data)

| | Series B Preferred Stock | | Common Stock | | Common Stock to be Issued | | Common Stock Subscribed | Additional Paid-in Capital | Accumulated Deficit | Other Comprehensive Loss | Total Stockholders' Deficit | Non-Controlling Interest | | | Total | | | | |
|--|--------------------------|--------|--------------|--------|---------------------------|--------|-------------------------|----------------------------|---------------------|--------------------------|-----------------------------|----------------------------|---------------------|--------------------------|------------|-----------------------------|-----------------|-------------|----------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | | Additional Paid-in Capital | Accumulated Deficit | Other Comprehensive Loss | | Total Stockholders' Deficit | Additional | Accumulated | Total Non- |
| | | | | | | | | | | | | | | | | | Paid-in Capital | Deficit | Controlling Interest |
| Balance December 31, 2016 | 10,000,000 | 10 | 822,653 | 1 | 8,098 | * | - | 7,041 | (13,500) | - | (6,448) | (2,501) | (655) | (3,156) | (3,292) | | | | |
| Committed shares issued | - | - | 2,669 | * | (2,668) | * | - | - | - | - | - | - | - | - | - | | | | |
| Committed shares reclassified to liability | - | - | - | - | (5,430) | * | - | (95) | - | - | (95) | - | - | - | (95) | | | | |
| Shares issued for services | - | - | 10,834 | * | - | - | - | 288 | - | - | 288 | - | - | - | 288 | | | | |
| Shares issued for conversion of debt | - | - | 147,679 | * | - | - | - | 1,991 | - | - | 1,991 | - | - | - | 1,991 | | | | |
| Shares issued for conversion of interest payable | - | - | 21,562 | * | - | - | - | 195 | - | - | 195 | - | - | - | 195 | | | | |
| Shares issued for cash | - | - | 8,334 | * | - | - | - | 65 | - | - | 65 | - | - | - | 65 | | | | |
| Shares issued for acquisition | - | - | 126,667 | * | - | - | - | 950 | - | - | 950 | - | - | - | 950 | | | | |
| Common stock subscribed | - | - | - | - | - | - | 400 | - | - | - | 400 | - | - | - | 400 | | | | |
| Fair value of stock options issued reclassified to liability | - | - | - | - | - | - | - | (1,117) | - | - | (1,117) | - | - | - | (1,117) | | | | |
| Forgiveness of imputed interest on related party payable | - | - | - | - | - | - | - | 237 | - | - | 237 | 2 | - | 2 | 239 | | | | |
| Unrealized loss on investment | - | - | - | - | - | - | - | - | - | (300) | (300) | - | - | - | (300) | | | | |
| Effect on minority interest from deconsolidated entity | - | - | - | - | - | - | - | - | - | - | - | 2,541 | - | 2,541 | 2,541 | | | | |
| Net income for year ending December 31, 2017 | - | - | - | - | - | - | - | - | (708) | - | (708) | - | (17) | (17) | (725) | | | | |
| Balance December 31, 2017 | 10,000,000 | \$ 10 | 1,140,398 | \$ 1 | - | \$ - | 400 | \$ 9,555 | \$ (14,208) | \$ (300) | \$ (4,542) | \$ 42 | \$ (672) | \$ (630) | \$ (5,172) | | | | |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
(U.S. dollars in thousands, except share and per share data)

| | Series B Preferred Stock | | Common Stock | | Common Stock to be Issued | | Common Stock Subscribed | Additional Paid-in Capital | Accumulated Deficit | Other Comprehensive Loss | Total Stockholders' Deficit | Non-Controlling Interest | | | Total | | | | |
|--|--------------------------|--------|--------------|--------|---------------------------|--------|-------------------------|----------------------------|---------------------|--------------------------|-----------------------------|----------------------------|---------------------|--------------------------|------------|-----------------------------|------------|-------------|-------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | | Additional Paid-in Capital | Accumulated Deficit | Other Comprehensive Loss | | Total Stockholders' Deficit | Additional | Accumulated | Total Non- |
| | | | | | | | | | | | | | | | | | Paid-in | Deficit | Controlling |
| Balance December 31, 2017 | 10,000,000 | 10 | 1,140,398 | 1 | - | - | 400 | 9,555 | (14,208) | (300) | (4,542) | 42 | (672) | (630) | (5,172) | | | | |
| Committed shares issued | - | - | 39,070 | * | - | - | (400) | 400 | - | - | - | - | - | - | - | | | | |
| Adoption of ASU 2016-01 | - | - | - | - | - | - | - | - | (300) | 300 | - | - | - | - | - | | | | |
| Shares issued for services | - | - | 13,333 | * | - | - | - | 60 | - | - | 60 | - | - | - | 60 | | | | |
| Shares issued for conversion of debt | - | - | 4,167 | * | - | - | - | 37 | - | - | 37 | - | - | - | 37 | | | | |
| Extinguish of liability upon shares | - | - | 206,811 | - | - | - | - | 893 | - | - | 893 | - | - | - | 893 | | | | |
| Issuance of common stock, net of issuance cost ** | - | - | 185,163 | 1 | - | - | - | 534 | - | - | 535 | - | - | - | 535 | | | | |
| Warrants and Stock options compensation | - | - | - | - | - | - | - | 444 | - | - | 444 | - | - | - | 444 | | | | |
| Common stock subscribed | - | - | - | - | - | - | 100 | - | - | - | 100 | - | - | - | 100 | | | | |
| Forgiveness of imputed interest on related party payable | - | - | - | - | - | - | - | 237 | - | - | 237 | 1 | - | 1 | 238 | | | | |
| Net income for year ending December 31, 2018 | - | - | - | - | - | - | - | - | (3,562) | - | (3,562) | - | (23) | (23) | (3,585) | | | | |
| Balance December 31, 2018 | 10,000,000 | \$ 10 | 1,588,942 | \$ 2 | - | \$ - | \$ 100 | \$ 12,160 | \$ (18,070) | \$ - | \$ (5,798) | \$ 43 | \$ (695) | \$ (652) | \$ (6,450) | | | | |

* less than \$1.

** Issuance cost during the period were \$18

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

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands, except share and per share data)

| | For the Year Ended December 31, | |
|---|------------------------------------|-----------------|
| | 2018 | 2017 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (3,585) | \$ (725) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Shares issued for services | 499 | 725 |
| Stock based compensation | 444 | 1,154 |
| Imputed interest | 237 | 237 |
| Available for sale securities received as other income | 171 | (550) |
| Gain from extinguishment of short-term loans | (99) | (880) |
| Debt discount amortization | 72 | 391 |
| Excess loss on derivative liability | (514) | 975 |
| License fee amortization | 35 | 83 |
| Allowance for doubtful accounts | - | 37 |
| Loss due to Settlement | 84 | - |
| Loss on disposal of business | - | 328 |
| Loss on disposal and impairment of assets | 1,917 | - |
| Gain on fair value measurement of stock-based liabilities | (2,314) | (497) |
| Deferred tax benefit | - | (1,087) |
| Depreciation expense | 2 | - |
| Amortization of intangible assets | 428 | 71 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts receivable | 3,960 | 5,866 |
| Other receivables | 142 | 1,009 |
| Accounts payable | (2,384) | (8,692) |
| Related party, net | 84 | 178 |
| Other accounts payables | 407 | 1,158 |
| Deferred revenue | (103) | (30) |
| Other long-term liabilities | - | (60) |
| Net Cash Used by Operating Activities | <u>(517)</u> | <u>(309)</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of equipment | (9) | (5) |
| Cash acquired in acquisitions, net of cash paid | - | 139 |
| Net Cash Provided by Investing Activities | <u>(9)</u> | <u>134</u> |
| Cash Flows from Financing Activities: | | |
| Proceeds from loans payable | - | 200 |
| Repayments of loans payable | (36) | (129) |
| Repayments of convertible notes | (12) | (400) |
| Repayments of related party loans | - | (1245) |
| Proceeds from common stock subscriptions | 100 | 400 |
| Proceeds from issuance of shares, net of issuance cost | 535 | 65 |
| Net Cash Provided by Financing Activities | <u>587</u> | <u>12</u> |
| Net Increase (Decrease) in Cash | 61 | (163) |
| Cash at Beginning of Period | 93 | 256 |
| Cash at End of Period | <u>\$ 154</u> | <u>\$ 93</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | <u>\$ 37</u> | <u>\$ -</u> |
| Cash paid for income taxes | <u>\$ -</u> | <u>\$ -</u> |
| Supplemental disclosure of non-cash financing activities | | |
| Common stock issued for conversion of convertible note principal | <u>\$ 27</u> | <u>\$ 1,075</u> |
| Common stock issued for conversion of convertible accrued interest | <u>\$ -</u> | <u>\$ 195</u> |
| Common stock issued for settlement of stock-based liabilities | <u>\$ 893</u> | <u>\$ -</u> |
| Common stock issued for settlement of common stock subscribed | <u>\$ 400</u> | <u>\$ -</u> |

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

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Cuentas, Inc. (formerly Next Group Holdings, Inc., the “Company”) together with its subsidiaries, is focused on Financial Technology (“FINTECH”) services, delivering mobile banking, online banking, prepaid debit and digital content services to unbanked, underbanked and underserved communities. The Company derives its revenue from the sales of prepaid and wholesale calling minutes. Additionally, The Company has an agreement with Incomm, a leading processor of general purpose reloadable (“GPR”) debit cards, to market and distribute a line of GPR cards targeted towards the Latin American market.

The Company was incorporated under the laws of the State of Florida on September 21, 2005 to act as a holding company for its subsidiaries. Its subsidiaries are Meimoun and Mammon, LLC (100% owned), Next Cala, Inc (94% owned), NxtGn, Inc. (65% owned) and Next Mobile 360, Inc. (100 % owned). Additionally, Next Cala, Inc. has a 60% interest in NextGlocal, a subsidiary formed in May 2016. During the year ended December 31, 2016, the Company acquired a business segment, Tel3, from an existing corporation. Tel3 provides prepaid calling cards to consumers directly and operates in a complimentary space as Meimoun and Mammon, LLC. Tel3 was merged into Meimoun and Mammon, LLC effective January 1, 2017. On October 23, 2017, the Company acquired 100% of the outstanding interests in Limecom, Inc.

Meimoun and Mammon, LLC (“M&M”) was formed under the laws of the State of Florida on May 21, 2001 as a real estate investment company. During the year ended December 31, 2010, M&M began winding down real estate operations and engaged in telecommunications services. M&M acquired telecom registrations, licenses and authorities to provide telecom services to the retail and wholesale markets including sales of prepaid long-distance telecom services and Mobile Virtual Network Operator (MVNO) services. The services are sold under the brand name Next Mobile 360 and through the subsidiary of the same name.

Next Cala, Inc. (“Cala”) was formed under the laws of Florida on July 10, 2009 for the purpose of offering prepaid and reloadable debit cards to the retail market. Cala serves consumers in the underbanked and unbanked populations through Incomm, a leading provider of 3rd party gift cards, GPR debit cards and payment remittance services worldwide.

NxtGn, Inc. (“NxtGn”) was formed under the laws of Florida on August 24, 2011 to develop a High Definition telepresence product (AVYDA) which allows users to connect with celebrities, public figures, healthcare and education applications via a mobile phone, tablet or personal computer. NxtGn has entered into a joint venture with telephony platform industry leader Telarix, Inc. to develop and market the AVYDA Powered by Telarix™ HD telepresence platform. The AVYDA Powered by Telarix™ product is marketed throughout the world by the Telarix sales force.

On December 6, 2017, the Company completed the formation of SDI NEXT Distribution LLC in which it owns 51% membership interest. The remainder of the membership interests is owned by Fisk Holdings, LLC. The Company acts as the Managing Member of SDI NEXT Distribution LLC. Under the Operating Agreement, the Company will contribute a total of \$500. Fisk Holdings, LLC will contribute 30,000 active Point of Sale locations for distribution of retail telecommunications and prepaid financial products and services to include, but not be limited to: prepaid general-purpose reloadable cards, prepaid gift cards, prepaid money transfer, prepaid utility payments, and other prepaid products.

On October 23, 2017, the Company, completed the acquisition of Limecom, Inc. (“Limecom”), Limecom is a global telecommunication company, providing services to telecommunication providers from all over the world. Limecom operates a network built on internet protocol (“IP”) switching equipment. It was organized as a Florida limited liability company (“LLC”) on November 21, 2014 and known as Limecom LLC. On September 29, 2015, Limecom converted to a Florida C-Corporation. The Acquisition was completed for total consideration of \$3,927, which included an issuance of 172,683 shares of common stock, which were valued at \$1,295 as of the acquisition date.

GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2018, the Company had approximately \$154 in cash and cash equivalents, approximately \$7,548 in negative working capital, a stockholders’ deficiency of approximately \$6,450 and an accumulated deficit of approximately \$18,070. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Company’s ability to continue as a going concern is dependent upon raising capital from financing transactions and revenue from operations. Management anticipates their business will require substantial additional investments that have not yet been secured. Management is continuing in the process of fund raising in the private equity and capital markets as the Company will need to finance future activities. These financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

REVERSE SPLIT

The Company completed a reverse stock split of its common stock, by filing articles of amendment to its Articles of Incorporation (the “Articles of Amendment”) with the Secretary of State of Florida to effect the Reverse Stock Split on August 8, 2018. As a result of the reverse stock split, the following changes have occurred (i) every three hundred shares of common stock have been combined into one share of common stock; (ii) the number of shares of common stock underlying each common stock option, common stock warrant or any other convertible instrument of the Company have been proportionately decreased on a 300-for-1 basis, and the exercise price of each such outstanding stock option, common warrant or any other convertible instrument of the Company have been proportionately increased on a 300-for-1 basis. Accordingly, all option numbers, share numbers, warrant numbers, share prices, warrant prices, exercise prices and losses per share have been adjusted within these consolidated financial statements, on a retroactive basis, to reflect this 300-for-1 reverse stock split. No fractional shares were issued as a result of the reverse stock split. In lieu of issuing fractional shares, each holder of common stock who would otherwise have been entitled to a fraction of a share was entitled to receive one full share for the fraction of a share to which he or she was entitled.

NOTE 2 – ACQUISITION

On October 23, 2017, the Company, completed the acquisition of Limecom, Inc. (“Limecom”), Limecom is a global telecommunication company, providing services to telecommunication providers from all over the world. Limecom operates a network built on internet protocol (“IP”) switching equipment. It was organized as a Florida limited liability company (“LLC”) on November 21, 2014 and known as Limecom LLC. On September 29, 2015, Limecom converted to a Florida C-Corporation.

The Acquisition was completed for total consideration of \$3,927, which included an issuance of 172,683 shares of common stock, which were valued at \$1,295 as of the acquisition date. As part of the acquisition, the Company assumed net liabilities of \$407 at fair value and identifiable intangible assets totaling \$3,000 resulting in goodwill of \$1,334. Net liabilities assumed consisted of the following:

| | | |
|--|----|----------------|
| Cash | \$ | 140 |
| Accounts receivable | | 13,488 |
| Accounts receivable, related party | | 370 |
| Other receivable | | 208 |
| Prepaid expenses and other current assets | | 927 |
| Website | | 7 |
| Related party receivable | | 120 |
| Accounts payable and accrued liabilities | | (13,714) |
| Accounts payable, related party | | (686) |
| Deferred tax liability | | (1,087) |
| Other long-term liabilities | | (180) |
| Net liabilities assumed | | <u>(407)</u> |
| Fair value of shares issued and committed to be issued | | 1,295 |
| Initial cash payable | | 921 |
| Note payable, net of discount of \$96 | | 1,711 |
| Total consideration | | <u>3,927</u> |
| Identifiable intangible assets | | <u>(3,000)</u> |
| Goodwill recorded | \$ | <u>1,334</u> |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Identifiable Intangible Assets

The Company acquired intangible assets that consisted of client relationships which had an estimated fair value of \$3,000. The intangible asset was measured at fair value using an income approach that discounts expected future cash flows to present value. The Company will amortize the intangible assets on a straight-line basis over their expected useful life of 84 months. Identifiable intangible assets were recorded as follows:

| <u>Asset</u> | <u>Amount</u> | <u>Life (months)</u> |
|----------------------|---------------|----------------------|
| Client relationships | \$ 3,000 | 84 |
| Total | \$ 3,000 | 84 |

On January 30, 2019, the Company rescinded the acquisition of Limecom, Inc. Therefore, and in accordance with ASC Topic 360, the Company recorded an asset impairment charges of \$1,917 which is included in the consolidated statements of operations within loss on disposal and impairment of assets; \$1,334 of the total impairment charge related to Goodwill and the remaining \$583 related to intangible assets. Please also refer to Note 16, Subsequent events.

Pro Forma Information (Unaudited)

The unaudited pro forma information for the years ended December 31, 2017 presented below include the effects of the Limecom acquisition had it been consummated on January 1, 2017 with adjustments to give effect to pro forma events that are directly attributable to the acquisitions. These adjustments are based upon information and assumptions available to us at the time of filing this Annual Report on Form 10-K. Accordingly, the unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of what the actual results of the combined company would have been if the acquisition had occurred at the beginning of the period presented, nor is it indicative of the future results of operations.

| | For the Year Ended December 31, 2017 |
|---------------------------------------|---|
| Revenue | \$ 130,988 |
| Cost of revenue | 125,393 |
| Gross margin | 5,595 |
| Operating expenses | 6,225 |
| Loss from operations | (630) |
| Other expense | (212) |
| Net loss before income tax benefit | \$ (842) |
| Net loss per share, basic and diluted | \$ (0.93) |

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”).

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. As applicable to the consolidated financial statements, the most significant estimates and assumptions relate to allowances for impairment of goodwill, impairment of intangible assets, fair value of stock-based compensation and fair value calculations related to embedded derivative features of outstanding convertible notes payable and Going Concern.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Functional currency

The functional currency of the company and its subsidiaries is U.S. dollar.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Cash and cash equivalents

The Company considers all short-term investments, which are highly liquid investments with original maturities of three months or less at the date of purchase, to be cash equivalents. The Company held no cash equivalents as of December 31, 2018 or 2017. As of December 31, 2018, and 2017, the Company did not hold cash with any one financial institution in excess of the FDIC insured limit of \$250.

Marketable securities

The Company accounts for investments in marketable securities in accordance with ASC Topic 320-10, "Investments - Debt and Equity Securities" ("ASC Topic 320-10"). Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reassesses such determination at each balance sheet date. The investments in marketable securities covered by ASC Topic 320-10 that were held by the Company during the reported periods were designated by management as trading securities. Trading securities are stated at market value. The changes in market value are charged to financing income or expenses. During the year ended December 31, 2017, the Company acquired 50,000 shares of common stock of Green Spirit Industries, a publicly held company, as a referral fee. The total value of the common shares was recorded as other income using the price of the common stock as quoted on Nasdaq on the date received resulting in other income of \$550. Trading losses for the years 2018 and 2017 amounted to approximately \$ 171 and \$ 300 respectively.

Allowance for doubtful accounts

The allowance for doubtful accounts is determined with respect to amounts the Company has determined to be doubtful of collection. In determining the allowance for doubtful accounts, the Company considers, among other things, its past experience with customers, the length of time that the balance is post due, the customer's current ability to pay and available information about the credit risk on such customers. There was an allowance for doubtful accounts of \$20 as of December 31, 2018 and 2017.

Accounts Receivable Factoring

Limecom executes factoring and security agreements with financial institutions from time to time, whereby it sells certain of its accounts receivable in exchange for cash. These factoring transactions qualify for sales treatment in accordance with FASB ASC 860, Transfers and Servicing. Upon purchase of the accounts receivable, the Company shall be deemed to have sold, transferred, assigned, set over and conveyed to the financial institution, without recourse except as expressly stated in the agreement, all of the Company's right, title and interest in and to the purchased accounts receivable. The Company carries credit insurance policy covering all factored accounts receivable, under which the financial institution is the beneficiary on the policy if default were to occur.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Maintenance and repair costs are expensed as they are incurred while renewals and improvements which extend the useful life of an asset are capitalized. At the time of retirement or disposal of property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the consolidated results of operations.

Goodwill and Intangible Assets

Goodwill represents the excess cost over the fair value of the assets of an acquired business. Goodwill and intangible assets acquired in a business combination accounted for as a purchase and determined to have an indefinite useful life are not amortized but are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. The Company evaluates the possible impairment of goodwill annually as part of its reporting process for the fourth quarter of each fiscal year. The Company determines the fair value of each subsidiary the goodwill relates to and compares the fair value to the carrying amount of the subsidiary. To the extent the carrying amount of the subsidiary exceeds the fair value of it, an impairment loss is recorded.

As discussed in *Note 2* the Company acquired Limecom Inc., which included the acquisition of intangible assets that consisted of client relationships which had an estimated fair value of \$3,000. The intangible asset was measured at fair value using an income approach that discounts expected future cash flows to present value. The Company will amortize the intangible assets on a straight-line basis over their expected useful life of 84 months. As of the acquisition date Identifiable intangible assets were recorded as follows:

| Asset | Amount | Life (months) |
|----------------------|-----------------|----------------------|
| Client relationships | \$ 3,000 | 84 |
| Total | <u>\$ 3,000</u> | <u>84</u> |

Amortization of intangible assets for each of the next five years and thereafter is expected to be as follows:

| Year ended December 31, | |
|--------------------------------|-----------------|
| 2019 | \$ 384 |
| 2020 | 384 |
| 2021 | 384 |
| 2023 | 384 |
| 2024 | 382 |
| Total | <u>\$ 1,918</u> |

Amortization expense was \$1,011 (including impairment of \$583) and \$71 for the years ended December 31, 2018 and 2017, respectively. Amortization expense for each period is included in cost of revenue.

In accordance with ASC Topic 360, during the year ended December 31, 2018, the Company recorded asset impairment charges of \$1,917 which is included in the consolidated statements of operations within loss on disposal and impairment of assets; \$1,334 of the total impairment charge related to Goodwill and the remaining \$583 related to intangible assets. The Company did not record impairment losses during the year ended December 31, 2017 (See Notes 2 and 15).

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Impairment of Long-Lived Assets

In accordance with ASC Topic 360, formerly SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of its asset based on estimates of its undiscounted future cash flows. If these estimated future cash flows are less than the carrying value of the asset, an impairment charge is recognized for the difference between the asset's estimated fair value and its carrying value. As a result, during the year ended December 31, 2018, the Company recorded asset impairment charges of \$1,917 which is included in the consolidated statements of operations within loss on disposal and impairment of assets; \$1,334 of the total impairment charge related to Goodwill and the remaining \$583 related to intangible assets. The Company did not record impairment losses during the year ended December 31, 2017 (See Notes 2 and 15).

Derivative Liabilities and Fair Value of Financial Instruments

Fair value accounting requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments and measurement of their fair value for accounting purposes. In assessing the convertible debt instruments, management determines if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring measurement. If the instrument is not considered conventional convertible debt under ASC 470, the Company will continue its evaluation process of these instruments as derivative financial instruments under ASC 815.

Once determined, derivative liabilities are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives.

Fair value of certain of the Company's financial instruments including cash, accounts receivable, account payable, accrued expenses, notes payables, and other accrued liabilities approximate cost because of their short maturities. The Company measures and reports fair value in accordance with ASC 820, "Fair Value Measurements and Disclosure" defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value investments.

Fair value, as defined in ASC 820, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset should reflect its highest and best use by market participants, principal (or most advantageous) markets, and an in-use or an in-exchange valuation premise. The fair value of a liability should reflect the risk of nonperformance, which includes, among other things, the Company's credit risk.

Valuation techniques are generally classified into three categories: the market approach; the income approach; and the cost approach. The selection and application of one or more of the techniques may require significant judgment and are primarily dependent upon the characteristics of the asset or liability, and the quality and availability of inputs. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also provides fair value hierarchy for inputs and resulting measurement as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity, and that are significant to the fair values.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Fair value measurements are required to be disclosed by the Level within the fair value hierarchy in which the fair value measurements in their entirety fall. Fair value measurements using significant unobservable inputs (in Level 3 measurements) are subject to expanded disclosure requirements including a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following: (i) total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings, and a description of where those gains or losses included in earnings are reported in the statement of income.

The Company records a debt discount related to the issuance of convertible debts that have conversion features at adjustable rates. The debt discount for the convertible instruments is recognized and measured by allocating a portion of the proceeds as an increase in additional paid-in capital and as a reduction to the carrying amount of the convertible instrument equal to the fair value of the conversion features. The debt discount will be accreted by recording additional non-cash gains and losses related to the change in fair values of derivative liabilities over the life of the convertible notes.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy are as follows:

| | Balance as of December 31, 2018 | | | |
|-----------------------------|--|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Marketable securities | 79 | - | - | 79 |
| Total assets | 79 | - | - | 79 |
| Liabilities: | | | | |
| Stock based liabilities | 225 | - | - | 225 |
| Long term derivative value | 33 | - | - | 33 |
| Total liabilities | 258 | - | - | 258 |
| | | | | |
| | Balance as of December 31, 2017 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Marketable securities | 250 | - | - | 250 |
| Total assets: | 250 | - | - | 250 |
| Liabilities: | | | | |
| Stock based liabilities | 2,963 | - | - | 2,963 |
| Short term derivative value | 212 | - | - | 212 |
| Long term derivative value | 362 | - | - | 362 |
| Total liabilities | 3,537 | - | - | 3,537 |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Non-Controlling Interest

The Company reports the non-controlling interest in its majority owned subsidiaries in the consolidated balance sheets within the stockholders' deficit section, separately from the Company's stockholders' deficit. Non-controlling interest represents the non-controlling interest holders' proportionate share of the equity of the Company's majority-owned subsidiaries. Non-controlling interest is adjusted for the non-controlling interest holders' proportionate share of the earnings or losses and other comprehensive income (loss) and the non-controlling interest continues to be attributed its share of losses even if that attribution results in a deficit non-controlling interest balance.

Revenue recognition

The Company follows paragraph 605-10-S99 of the FASB *Accounting Standards Codification* for revenue recognition. The Company will recognize revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. The Company primarily generates revenues through the brokering of sales of minutes from one telecommunications carrier to another through Limecom and to a lesser extent the sales of prepaid calling minutes to consumers through its Tel3 division. While the Company collects payment for such minutes in advance, revenue is recognized upon delivery to and consumption of minutes by the consumer. Minutes are forfeited by the consumer after 12 consecutive months of non-use at which point the Company recognizes revenue from the forfeiture of prepaid minutes. Next Cala generated revenues from commissions earned from Incomm, a leading financial services provider, and NxtGn generated revenues from the sale of voice over IP platform software during the years ended December 31, 2018 and 2017.

Business Segments

The Company operates in a single business segment in telecommunications.

Income Taxes

Income taxes are accounted for under the assets and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Use of net operating loss carry forwards for income tax purposes may be limited by Internal Revenue Code section 382 if a change of ownership occurs.

Net Loss Per Basic and Diluted Common Share

Basic loss per share is calculated by dividing the Company's net loss applicable to common shareholders by the weighted average number of common shares during the period. Diluted earnings per share is calculated by dividing the Company's net income available to common shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted average number of shares adjusted for any potentially dilutive debt or equity.

At December 31, 2017, the Company had two outstanding convertible notes payable with conversion rights that are exercisable. The amount of outstanding principal on these convertible notes total \$49 plus accrued interest of \$36 for total convertible debts as of December 31, 2017 of \$84 representing 26,442 new dilutive common shares if converted at the applicable rates. Additionally, the Company had common stock subscriptions totaling \$400 representing an additional 38,195 common shares and 116,174 common shares committed but not yet issued. The effects of these notes, common shares subscribed and common shares committed have been excluded as the conversion would be anti-dilutive due to the net loss incurred in the year ended December 31, 2017.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

At December 31, 2018, potentially dilutive securities consisted of 95,443 shares which the Company is obligated to issue and 162,044 options to purchase of common stock at prices ranging from \$3 to \$54 per share. Of these potentially dilutive securities, only 95,443 shares which the Company is obligated to issue and 90,000 options to purchase of common stock at price of \$3 per share are included in the computation of diluted earnings per share because the effect of including the remaining instruments would be anti-dilutive. Additionally, the Company had common stock subscriptions totaling \$100 representing an additional 33,334 common shares. The effects of these notes, common shares subscribed and common shares committed have been excluded as the conversion would be anti-dilutive due to the net loss incurred in the year ended December 31, 2018.

Advertising Costs

The Company's policy regarding advertising is to expense advertising when incurred. The Company incurred \$46 and \$28 of advertising costs during the years ended December 31, 2018 and 2017, respectively.

Stock-Based Compensation

The Company applies ASC 718-10, "Share-Based Payment," which requires the measurement and recognition of compensation expenses for all share-based payment awards made to employees and directors (including employee stock options under the Company's stock plans) based on estimated fair values.

ASC 718-10 requires companies to estimate the fair value of equity-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's statement of operations.

The Company recognizes compensation expenses for the value of non-employee awards based on the straight-line method over the requisite service period of each award, net of estimated forfeitures.

The Company estimates the fair value of stock options granted as equity awards using a Black-Scholes options pricing model. The option-pricing model requires a number of assumptions, of which the most significant are share price, expected volatility and the expected option term (the time from the grant date until the options are exercised or expire). Expected volatility is estimated based on volatility of similar companies in the technology sector. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from governmental zero-coupon bonds with an equivalent term. The expected option term is calculated for options granted to employees and directors using the "simplified" method. Grants to non-employees are based on the contractual term. Changes in the determination of each of the inputs can affect the fair value of the options granted and the results of operations of the Company.

Related Parties

The registrant follows subtopic 850-10 of the FASB Accounting Standards Codification for the identification of related parties and disclosure of related party transactions.

Pursuant to Section 850-10-20 the Related parties include (a) affiliates of the registrant; (b) entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; (c) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; (d) principal owners of the registrant; (e) management of the registrant; (f) other parties with which the registrant may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and (g) Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include: (a) the nature of the relationship(s) involved; (b) description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements; (c) the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and (d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Recently Issued Accounting Standards

On February 14, 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amendments in this Update affect any entity that is required to apply the provisions of Topic 220, Income Statement—Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments in this Update are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized.

On March 9, 2018 the FASB issued ASU 2018-04, Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update). The amendments in this Update supersedes various SEC paragraphs and adds an SEC paragraph pursuant to the issuance of Staff Accounting Bulletin No. 117. This amendment is effective upon issuance.

On March 14, 2018 the FASB issued Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This amendment is effective upon issuance.

In June 2018, the FASB issued Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update related to separating components of a contract are the same as the effective date and transition requirements in Update 2016-02. For entities that have adopted Topic 842 before the issuance of this Update, the transition and effective date of the amendments related to separating components of a contract in this Update are as follows: 1. The practical expedient may be elected either in the first reporting period following the issuance of this Update or at the original effective date of Topic 842 for that entity. 2. The practical expedient may be applied either retrospectively or prospectively. All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this Update must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update improve the effectiveness of fair value measurement disclosures and modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendments apply to reporting entities that are required to make disclosures about recurring or nonrecurring fair value measurements and should improve the cost, benefit, and effectiveness of the disclosures. ASU 2018-13 categorized the changes into those disclosures that were removed, those that were modified, and those that were added. The primary disclosures that were removed related to transfers between Level 1 and Level 2 investments, along with the policy for timing of transfers between levels. In addition, disclosing the valuation processes for Level 3 fair value measurements was removed. The amendments are effective for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18 “Collaborative Arrangements (Topic 808)—Clarifying the interaction between Topic 808 and Topic 606”. The amendments provide guidance on whether certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606. It also specifically (i) addresses when the participant should be considered a customer in the context of a unit of account, (ii) adds unit-of-account guidance in ASC 808 to align with guidance in ASC 606, and (iii) precludes presenting revenue from a collaborative arrangement together with revenue recognized under ASC 606 if the collaborative arrangement participant is not a customer. The guidance will be effective for fiscal years beginning after December 15, 2019. Early adoption is permitted and should be applied retrospectively. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

NOTE 4 – DISCONTINUED OPERATIONS

The Company has classified its former gift card processing business as a discontinued operation. During the first quarter of 2017, the Company ceased activity in this business segment and disposed of its ownership interest. On April 26, 2017, the Company entered into and completed the sale of the business to an unaffiliated third party.

Revenue Recognition for Discontinued Operations

Our discontinued operations generated revenue primarily from processing gift cards for local retailers. Commissions were recognized under service agreements with the retailers and recorded as revenue when processing fees were earned.

The results of discontinued operations do not include any allocated or common overhead expenses. The results of operations of discontinued operations were as follows:

| | For the Year Ended December 31, 2017 |
|-----------------------------------|---|
| Revenues | \$ - |
| Operating expenses: | |
| Loss on disposal of business | 328 |
| Other general and administrative | - |
| Impairment loss | - |
| Loss from discontinued operations | \$ 328 |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following:

| | December 31, | |
|-------------------------------|---------------------|-------------|
| | 2018 | 2017 |
| Office Equipment | \$ 17 | \$ 8 |
| Less—accumulated depreciation | (4) | (2) |
| | \$ 13 | \$ 6 |

Depreciation expenses were \$2 and \$0 in the years ended December 31, 2018 and 2017, respectively.

NOTE 6 – OTHER ACCOUNTS LIABILITIES

| | December 31, | December 31, |
|--|---------------------|---------------------|
| | 2018 | 2017 |
| Settlements payable | \$ 1,029 | \$ 892 |
| Accrued expenses and other liabilities | 534 | 741 |
| Dividend Payable (1) | 30 | 30 |
| Accrued salaries and wages | 967 | 329 |
| Total | \$ 2,560 | \$ 1,992 |

(1) During the year ended December 31, 2016, the Company declared a special dividend on its outstanding common stock of one share of Class D Redeemable Preferred Stock. The Class D Redeemable Preferred Stock was not issued as of December 31, 2018 and were cancelled.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

NOTE 7 – CONVERTIBLE NOTES

The Company has entered into a series of convertible notes payable to fund operations. While with differing noteholders, the terms of the outstanding convertible notes are substantially similar and accrue interest at 8% annually with a default interest rate of 24% and allow for the conversion of outstanding principal and interest to common stock at a price equal to a 45% to 50% from the lowest trading price in the preceding 20 days.

In February 2017, the Company agreed with certain noteholders to extend a redemption freeze agreement whereby the convertible note holders agreed to not convert outstanding principal and accrued interest into common stock for a period of 60 days. Upon the expiration of these agreements, a 90-day extension was executed whereby the noteholders agreed to not convert additional amounts through the first week of July 2017. Under the terms of the extension, each noteholder was granted the right to convert a limited amount of outstanding principal to common stock at a rate equal to the stated rate in the convertible note payable but not less than \$0.02 per share and extended the due dates of the notes to July 2017. During the year ended December 31, 2017, the Company accrued a total of \$210 of penalties on convertible notes payable which was recorded as a loss on the extinguishment of debt.

During 2018 and 2017 the Company settled all its convertible notes payable for a combination of cash and shares of common stock.

The following table summarizes all convertible notes payable activity for the year ended December 31, 2018:

| Holder | Issue Date | Due Date | Original Principal | Balance, December 31, 2017 | Gain | Penalties Accrued | Repayments | Conversions to Common Stock | Balance, December 31, 2018 |
|---------------|-------------------|-----------------|-------------------------------|---|----------------|------------------------------|-------------------|--|---|
| Noteholder 5 | 11/9/2015 | 11/9/2016 | 100 | 49 | (10) | - | (12) | (27) | - |
| Totals | | | \$ 100 | \$ 49 | \$ (10) | - | \$ (12) | \$ (27) | \$ - |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

The following table summarizes all convertible notes payable activity for the year ended December 31, 2017:

| Holder | Issue Date | Due Date | Original Principal | Balance, December 31, 2016 | Advances | Penalties Accrued | Repayments | Conversions to Common Stock | Balance, December 31, 2017 |
|---------------|------------|------------|--------------------|----------------------------|--------------|-------------------|-----------------|-----------------------------|----------------------------|
| Noteholder 1 | 11/25/2015 | 11/24/2016 | \$ 83 | \$ 83 | \$ - | \$ - | \$ (47) | \$ (36) | \$ - |
| Noteholder 1 | 12/21/2015 | 12/21/2016 | 27 | 27 | - | - | (27) | - | - |
| Noteholder 1 | 1/15/2016 | 1/15/2017 | 130 | 130 | - | - | - | (130) | - |
| Noteholder 1 | 3/8/2016 | 3/8/2017 | 50 | 50 | - | - | (50) | - | - |
| Noteholder 1 | 4/11/2016 | 4/11/2017 | 83 | 83 | - | - | - | (83) | - |
| Noteholder 1 | 4/11/2016 | 4/11/2017 | 83 | 83 | - | - | - | (83) | - |
| Noteholder 1 | 4/11/2016 | 4/11/2017 | 83 | 83 | - | - | - | (83) | - |
| Noteholder 1 | 5/16/2016 | 5/16/2017 | 100 | 100 | - | 11 | - | (111) | - |
| Noteholder 1 | 7/22/2016 | 7/22/2017 | 50 | 50 | - | 5 | - | (55) | - |
| Noteholder 1 | 8/2/2016 | 8/2/2017 | 50 | 50 | - | 106 | - | (156) | - |
| Noteholder 2 | 11/20/2015 | 11/20/2016 | 37 | 37 | - | - | - | (37) | - |
| Noteholder 3 | 3/8/2016 | 3/8/2017 | 50 | 14 | - | - | (14) | - | - |
| Noteholder 3 | 5/16/2016 | 5/16/2017 | 100 | 100 | - | - | (22) | (78) | - |
| Noteholder 3 | 7/22/2016 | 7/22/2017 | 50 | 50 | - | 33 | (23) | (60) | - |
| Noteholder 3 | 3/8/2016 | 3/8/2017 | 25 | 25 | - | - | - | (25) | - |
| Noteholder 4 | 1/19/2016 | 1/15/2017 | 131 | 131 | - | 55 | (60) | (126) | - |
| Noteholder 4 | 3/9/2016 | 3/8/2017 | 50 | 50 | - | - | - | (50) | - |
| Noteholder 5 | 11/9/2015 | 11/9/2016 | 100 | 61 | - | - | - | (12) | 49 |
| Noteholder 6 | 11/2/2016 | 11/2/2017 | 52 | 52 | - | - | - | (52) | - |
| Noteholder 7 | 1/2/2017 | 8/2/2017 | 70 | - | 70 | - | - | (70) | - |
| Totals | | | \$ 1,404 | \$ 1,259 | \$ 70 | 210 | \$ (243) | \$ (1,247) | \$ 49 |

Accrued Interest

There was \$0 and \$35 of accrued interest due on all convertible notes as of December 31, 2018 and 2017, respectively.

NOTE 8 – DERIVATIVE LIABILITIES

The Company analyzed the conversion features of the convertible notes payable as discussed in *Note 7 – Notes Convertible Notes* for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the embedded conversion features should be classified as a derivative liability because the exercise prices of these convertible notes are subject to a variable conversion rate with a floor of \$6 per share. The Company has determined that the conversion feature is not considered to be solely indexed to the Company’s own stock and is therefore not afforded equity treatment. In accordance with AC 815, the Company has bifurcated the conversion feature of the note and recorded a derivative liability.

The embedded derivative for the note is carried on the Company’s balance sheet at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the income statement and the associated fair value carrying amount on the balance sheet is adjusted by the change. The Company fair values the embedded derivative using the Black-Scholes option pricing model.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

As of December 31, 2018, and 2017, the Company had a derivative liability of \$33 and \$574, respectively and recorded a gain from derivative liability fair value adjustment of \$514 and a loss of \$831 during the years ended December 31, 2018 and 2017, respectively. The derivative liability activity comes from convertible notes payable as discussed in *Note 7 – Convertible Notes*. In addition to derivative liabilities associated with convertible notes payable, the Company recorded a derivative liability due to a ratchet strike price feature associated with the options issued in the acquisition of TPP. The options are exercisable at \$54 per share unless the Company's common stock is quoted at a price greater than \$150 per share at which point the options are exercisable at \$90 per share.

A summary of the changes in derivative liabilities balance for the nine months ended December 31, 2018 is as follows:

| Fair Value of Embedded Derivative Liabilities: | |
|--|---------------------|
| Balance, December 31, 2016 | \$ 1,210 |
| Initial measurement of derivative liabilities on new convertible notes payable | 185 |
| Change in fair value | 975 |
| Reclassification due to conversion and repayment | (1,796) |
| Balance, December 31, 2017 | <u>574</u> |
| Change in fair value | (514) |
| Change due to conversion | (27) |
| Balance, December 31, 2018 | <u>\$ 33</u> |

The value of the embedded derivative liabilities for the convertible notes payable and outstanding option awards was determined using the Black-Scholes option pricing model based on the following assumptions:

| | December 31, 2018 | December 31, 2017 |
|-------------------------|------------------------------|------------------------------|
| Common stock price | 3.00 | 17.40 |
| Expected volatility | 233% | 178% - 334% |
| Expected term | 1.25 years | .01 - 2.25 years |
| Risk free rate | 2.56% | 0.97% - 1.89% |
| Forfeiture rate | 0% | 0% |
| Expected dividend yield | 0% | 0% |

A summary of outstanding derivative liabilities as of December 31, 2018 is as follows:

| Holder | Derivative Balance |
|---------------|-------------------------------|
| Option Holder | 33 |
| Total | <u>\$ 33</u> |

A summary of outstanding derivative liabilities as of December 31, 2017 is as follows:

| Holder | Derivative Balance |
|---------------|-------------------------------|
| Noteholder 5 | \$ 212 |
| Option Holder | 362 |
| Total | <u>\$ 574</u> |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

NOTE 9 – RELATED PARTY TRANSACTIONS

The Company has had extensive dealings with related parties including those in which our Chief Executive Officer holds a significant ownership interest as well as an executive position during the years ended December 31, 2018 and 2017. Due to our operational losses, the Company has relied to a large extent on funding received from Next Communications, Inc., an organization in which our Chief Executive Officer and Chairman holds a controlling equity interest and holds an executive position. During the first calendar quarter of 2017, Next Communications, Inc. filed for bankruptcy protection. As a result, the related party payable is being handled by a court appointed trustee as an asset of Next Communications, Inc. and the Company may need to begin repaying the amounts due on a more fixed schedule.

With the exception of the Company's purchase of a 9% interest in Next Cala, Inc. from a related party and the related party payable to Orlando Taddeo for the acquisition of Limecom as described below, amounts scheduled below as "due to related parties" and "due from related parties" have not had their terms, including amounts, collection or repayment terms or similar provisions memorialized in formalized written agreements.

Related party balances at December 31, 2018 and 2017 consisted of the following:

Related party receivable

| | December 31, 2018 | December 31, 2017 |
|--------------------------------|----------------------|----------------------|
| (a) Glocal Card Services | \$ 36 | \$ 36 |
| Total Due from related parties | <u>\$ 36</u> | <u>\$ 36</u> |

Related party payables, net of discounts

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| (b) Due to Next Communications, Inc. (current) | \$ 2,972 | \$ 2,920 |
| (c) Due to Asiya Communications SAPI de C.V. (current) | 26 | 6 |
| (d) Michael DePrado (current) | 100 | 100 |
| (e) Orlando Taddeo (\$1,807 due to the acquisition of Limecom are due on July 21, 2019) | 2,613 | 2,536 |
| (f) Next Cala 360 (current) | 14 | 7 |
| Total Due from related parties | <u>\$ 5,725</u> | <u>\$ 5,569</u> |

- (a) Glocal Card Services is the Company's partner in the Glocal Joint Venture
- (b) Next Communication, Inc. is a corporation in which our Chief Executive Officer holds a controlling interest and serves as the Chief Executive Officer. During the first calendar quarter of 2017, Next Communications, Inc. filed for bankruptcy protection. As a result, the related party payable is being handled by a court appointed trustee as an asset of Next Communications, Inc. On January 29, 2019, the United States Bankruptcy Court Southern District of Florida Miami Division approved a Plan of Reorganization for Next Communications, Inc., whereby Cuentas Inc. would pay \$600 to a specific creditor in consideration for the forgiveness of the balance of the payable balance.
- (c) Asiya Communications SAPI de C.V. is a telecommunications company organized under the laws of Mexico, in which the Company's Chief Executive Officer holds a substantial interest and is involved in active management.
- (d) Michael DePrado is the Company's President
- (e) Amount due to Orlando Taddeo from the acquisition of Limecom
- (f) Next Cala 360, is a Florida corporation established and managed by the Company's Chief Executive Officer.

During the years ended December 31, 2018 and 2017, the Company recorded interest expense of \$237 and \$237, respectively, using an interest rate equal to that on the outstanding convertible notes payable as discussed in *Note 7 – Convertible Notes* as imputed interest on the related party payable due to Next Communications. The interest was immediately forgiven by the related party and recorded to additional paid in capital.

Notes Payable, Related Party

During the year ended December 31, 2014, the Company entered into two notes with its President to purchase his interest in Next Cala, Inc. and separately his voting control in Next Cala, Inc. During the year ended December 31, 2017, the outstanding principal and accrued interest totaling \$295 was agreed to be converted to 29,667 shares of common stock.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Trade Accounts Receivable, Related Parties

The Company had outstanding accounts receivable of \$3,006 from related parties as of December 31, 2018 of which \$2,959 was due from Rubelite- C (which is a related to one the Company's shareholders of the Company and a former owner of Limecom), \$8 was due from Next Cala 360 and \$39 was due from Asiya Communications SAPI de C.V. The accounts receivable was recorded as a result of the sale of wholesale telecommunications minutes to these entities.

The Company had outstanding accounts receivable of \$ 9 from a related party as of December 31, 2017 which was due from Next Communications. The trade accounts receivable arose from the sale of wholesale telecommunications minutes to this entity.

Accounts Payable, Related Parties

The Company had outstanding accounts payable of \$109 to related parties as of December 31, 2018 of which \$17 was due to Asiya Communications S.A. de C.V., \$67 was due to Airtime Sp.z.o.o. (a subsidiary of one the Company's shareholders of the Company and a former owner of Limecom) and \$25 was due to Next Communication Inc.

The Company had outstanding accounts payable of \$500 to a related party as of December 31, 2017 which was due to Next Communications.

Revenues (Related Parties)

The Company made sales to and generated revenues from related parties of \$49,667 and \$1,019 during the years ended December 31, 2018 and 2017, respectively, as itemized below:

| | For the Year Ended December 31, | |
|-----------------------------------|------------------------------------|--------------|
| | 2018 | 2017 |
| Next Communications, Inc. | 14,310 | 343 |
| VTX Corporation (a) | 11,890 | - |
| Airtime Sp.z.o.o. | 5,095 | - |
| Asiya Communications SAPI de C.V. | 15,383 | 672 |
| RUBELITE - C (a) | 2,989 | - |
| Next Cala 360 | - | 4 |
| Total | 49,667 | 1,019 |

(a) Corporations that are owned by one of the Company's shareholders and a former owner of Limecom

Costs of Revenues (Related Parties)

The Company made purchases from related parties totaling \$59,217 and \$0 during the years ended December 31, 2018 and 2017, respectively, as itemized below:

| | For the Year Ended December 31, | |
|-----------------------------------|------------------------------------|----------|
| | 2018 | 2017 |
| Next Communications, Inc. | 14,310 | - |
| VTX Corporation | 24,017 | - |
| Airtime Sp.z.o.o. | 5,529 | - |
| Asiya Communications SAPI de C.V. | 15,361 | - |
| Total | 59,217 | - |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

NOTE 10 – STOCK OPTIONS

The following table summarizes all stock option activity for the nine months ended December 31, 2018:

| | Shares | Weighted-Average Exercise Price Per Share |
|--------------------------------|----------------|---|
| Outstanding, December 31, 2017 | 105,378 | \$ 39.27 |
| Granted | 90,000 | 3.00 |
| Forfeited | (33,334) | 54.00 |
| Outstanding, December 31, 2018 | <u>162,044</u> | <u>\$ 16.09</u> |

The following table discloses information regarding outstanding and exercisable options at December 31, 2018:

| Exercise Prices | Outstanding | | | Exercisable | |
|-----------------|-------------------------|---------------------------------|---|-------------------------|---------------------------------|
| | Number of Option Shares | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) | Number of Option Shares | Weighted Average Exercise Price |
| \$ 54.00 | 25,000 | \$ 54.00 | 1.25 | 25,000 | \$ 54.00 |
| 21.00 | 47,044 | 21.00 | 1.49 | 47,044 | 21.00 |
| 3.00 | 90,000 | 3.00 | 4.71 | 30,000 | 3.00 |
| | <u>162,044</u> | <u>\$ 16.09</u> | <u>2.73</u> | <u>102,044</u> | <u>\$ 23.79</u> |

The following table summarizes all stock option activity for the year ended December 31, 2017:

| | Shares | Weighted-Average Exercise Price Per Share |
|--------------------------------|----------------|---|
| Outstanding, December 31, 2016 | 58,334 | \$ 54 |
| Granted | 72,044 | 32.4 |
| Exercised | - | - |
| Forfeited | (25,000) | 54 |
| Expired | - | - |
| Outstanding, December 31, 2017 | <u>105,378</u> | <u>\$ 39.27</u> |

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

The following table discloses information regarding outstanding and exercisable options at December 31, 2017:

| Exercise Prices | Outstanding | | | Exercisable | |
|-----------------|-------------------------|---------------------------------|---|-------------------------|---------------------------------|
| | Number of Option Shares | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) | Number of Option Shares | Weighted Average Exercise Price |
| \$ 54.00 | 58,334 | \$ 54.00 | 2.83 | 36,111 | \$ 54.00 |
| 21.00 | 47,044 | 21.00 | 2.49 | 47,044 | 21.00 |
| | 105,378 | \$ 39.27 | 2.66 | 83,155 | \$ 35.40 |

On September 13, 2018, the Company issued 60,000 options to its President and Chief Executive Office. The options carry an exercise price of \$3 per share. A third of the options vested immediately with the remaining vesting over the course of two years. The Options are exercisable until September 12, 2023. The Company has estimated the fair value of such options at a value of \$302 at the date of issuance using the Black-Scholes option pricing model using the following assumptions:

| | |
|-------------------------|---------|
| Common stock price | 5.05 |
| Dividend yield | 0% |
| Risk-free interest rate | 2.87% |
| Expected term (years) | 5 |
| Expected volatility | 374.26% |

On September 13, 2018, the Company issued 30,000 options to its member of the Board. The options carry an exercise price of \$3 per share. Third of the options vested immediately with the remaining vesting over the course of two years. The Options are exercisable until September 12, 2023. The Company has estimated the fair value of such options at a value of \$151 at the date of issuance using the Black-Scholes option pricing model using the following assumptions:

| | |
|-------------------------|---------|
| Common stock price | 5.05 |
| Dividend yield | 0% |
| Risk-free interest rate | 2.87% |
| Expected term (years) | 5 |
| Expected volatility | 374.26% |

During the year ended December 31, 2018, the Company recorded an option-based compensation expense of \$218, leaving an unrecognized expense associated with these grants of \$235 as of December 31, 2018.

On June 26, 2017, the Company issued a total of 47,044 options to certain officers pursuant to employment agreements executed on that date. The options vested immediately and can be exercised for a period of three years at a price of \$21. The options were valued using a Black-Scholes model with the following inputs: an exercise price of \$21, a stock price at the date of valuation of \$.055, a risk-free rate of 1.36%, lives of 3 years and annual volatility of 885%. Annual volatility is derived by computing daily volatility and multiplying it by the square root of the number of trading days in a typical calendar year. The Company recorded an expense of \$776 related to these options during the year ended December 31, 2017. There is no unrecognized expense associated with these options.

Total stock-based compensation expense related to option grants was \$1,111 during the year ended December 31, 2017, leaving an unrecognized expense of \$223 as of December 31, 2017.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (U.S. dollars in thousands, except share and per share data)

NOTE 11 – STOCKHOLDERS’ EQUITY

Preferred Stock

At the time of incorporation, the Company was authorized to issue 60,000,000 shares of preferred stock with a par value of \$0.001 of which 50,000,000 was undesignated and 10,000,000 as Series B. With the completion of the recapitalization as discussed in Note 2, the outstanding Series A preferred shares were cancelled leaving a balance outstanding of Preferred Series A of -0-

The Company has 10,000,000 shares of Preferred Stock designated as Series B issued and outstanding. The Series B Preferred Stock is not convertible into Common Stock at any time and is not entitled to dividends of any kind or liquidation, dissolution rights of any kind. The holders of Series B Preferred Stock shall be entitled to 1,000 votes for each share of Series B Stock that is held when voting together with holders of the Common Stock.

The Company has 36,000,000 shares of Preferred Stock designated as Series D. The Series D Preferred Stock is reserved for the settlement of dividends payable which were \$30 as of December 31, 2018 and 2017. The Class D Preferred Stock must be redeemed within six (6) months (or as soon thereafter as permitted by law) following final resolution of the Corporation’s affiliates lawsuit against ViberMedia , Inc. (Next Communications, Inc. and Nxtgn, Inc. v. Viber Media, Inc.) which is, as of the date of this filing, pending in U.S. District Court for the Southern District of New York or any successor or other lawsuit relating to the subject matter thereof in which the Corporation (or any successor-in-interest) is named as a plaintiff (the “Lawsuit”). There were no Series D Preferred shares issued or outstanding as of December 31, 2018 or 2017.

Common Stock

Effective November 20, 2015 the Company amended its Articles of Incorporation to decrease the common shares authorized from 9,500,000,000 to 360,000,000 with a par value of \$0.001.

Common Stock Activity During the Year Ended December 31, 2018

The following summarizes the common stock activity for the twelve months ended December 31, 2018:

| Summary of common stock activity for the year ended December 31, 2018 | Outstanding shares |
|--|-------------------------------|
| Balance, December 31, 2017 | 1,140,398 |
| Shares issued for common stock | 224,233 |
| Shares issued as settlement of stock-based liabilities | 206,811 |
| Shares issued for services | 13,333 |
| Shares issued for settlement of convertible notes payable and accrued interest | 4,167 |
| Balance, December 31, 2018 | <u>1,588,942</u> |

On January 9, 2018, the Company issued 11,483 shares of its common stock pursuant to a settlement of stock-based liabilities. The fair market value of the shares was \$155.

On January 12, 2018, the Company issued 2,000 shares of its common stock to a note holder in connection with outstanding convertible note payable and convertible accrued interest on convertible notes payable in accordance with a settlement agreement. The fair market value of the shares was \$27.

On February 7, 2018, the Company issued 39,070 shares of its common stock pursuant to a common stock subscription. The fair market value of the shares at the subscription date was \$400.

On September 11, 2018, the Company issued 2,167 shares of its common stock to a note holder in connection with outstanding convertible note payable and convertible accrued interest on convertible notes payable in accordance with a settlement agreement. The fair market value of the shares was \$10.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Common Stock Activity During the Year Ended December 31, 2018

On September 21, 2018, the Company entered into a securities purchase agreement with various purchasers to issue 146,669 shares of common stock in consideration of \$440. One of the purchasers is the Company's President and CEO who purchased 16,667 shares. Another purchaser is a current shareholder which controlled by the former owner of Limecom (a fully subsidiary of the Company), who purchased 16,667 shares. On December 13, 2018 the Company issued 30,001 shares of its common stock for the consideration of \$90 which it received of under the same Securities Purchase Agreement which it entered on September 21, 2018.

On September 27, 2018, the Company issued 13,333 shares of its common stock to a consultant, pursuant to a consulting agreement dated September 18, 2018, in consideration for consulting services. The fair market value of the shares at grant date was \$60.

On September 27, 2018, the Company issued 61,002 shares of its common stock pursuant to a settlement of stock-based liabilities. The fair market value of the shares was \$335.

On October 25, 2018, the Company received \$108 under a private placement of securities closed on October 25, 2018 and issued 35,834 shares of its common stock. The issuance cost was \$8.

On November 20, 2018 and November 28, 2018, the Company received \$100 under a private placement of securities closed on December 13, 2018 and issued 36,667 shares of its common stock and warrants to purchase up to 36,667 shares of its common stock at an exercise price equal to \$3.25 per share. The issuance cost was 10\$.

During December, 2018, the Company received \$248 under a private placement of securities closed on December 13, 2018 and issued 82,667 shares of its common stock and warrants to purchase up to 82,667 shares of its common stock at an exercise price equal to \$3.25 per share.

On December 13, 2018 and pursuant to a Debt Financing Service Agreement, the Company issued warrants to purchase up to 74,866 shares of Common Stock at an exercise price per share of \$3 in consideration for investment banking services. The Warrants are exercisable until February 14, 2024. The Company has estimated the fair value of such warrants at a value of \$226 at the date of issuance using the Black-Scholes option pricing model using the following assumptions:

| | % |
|-------------------------|-------|
| Dividend yield | 0% |
| Risk-free interest rate | 2.56% |
| Expected term (years) | 5 |
| Volatility | 225% |

The Company recorded the fair value of such warrants as General and administrative expenses in the Income Statement of the Company for the year ended at December 31, 2018.

On December 28, 2018, the Company issued 134,326 shares of its common stock pursuant to a settlement of stock-based liabilities. The fair market value of the shares was \$403.

During the year ended December 31, 2017, the Company issued 147,679 shares of common stock for the conversion of \$1,075 of principal of convertible notes payable and 21,562 shares for the conversion of \$195 of accrued interest. The conversion of principal and accrued interest on convertible notes payable to common stock were done so at the contractual terms of each respective agreement. The details of certain issuances of common stock are as follows:

On various dates during the year ended December 31, 2017, the Company issued a total of 10,834 common shares for services totaling \$288 pursuant to various agreements with third parties. The Company valued the common shares using the close price of the stock as listed on the OTCBB on the dates of issuance.

On October 23, 2017, the Company completed its acquisition of Limecom as discussed in *Note 2*. Pursuant to this agreement, the Company issued 126,667 shares of common stock valued at \$950.

During the year ended December 31, 2017, the Company accepted common stock subscription agreements from investors for common stock at \$7.68 per share. Pursuant to these agreements, the Company issued a total of 8,334 shares of common stock resulting in cash proceeds to the Company of \$65.

During the year ended December 31, 2017, the Company issued a total of 2,669 shares of common stock that were committed to be issued during the year ended December 31, 2016. Additionally, the Company reclassified the value of an additional 5,430 shares of common stock committed to be issued during the year ended December 31, 2016 to a liability as of December 31, 2017.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

| Summary of common stock activity for the year ended December 31, 2017 | Outstanding shares |
|--|-------------------------------|
| Balance, December 31, 2016 | 822,653 |
| Shares issued for services | 10,834 |
| Shares issued committed to be issued during prior year | 2,669 |
| Shares issued for acquisition | 126,667 |
| Shares issued for cash | 8,334 |
| Shares issued for conversion of convertible notes payable and accrued interest (a) | 169,241 |
| Balance, December 31, 2017 | 1,140,398 |

(a) Shares issued in connection with outstanding convertible notes payable and convertible accrued interest on convertible notes payable in accordance with contractual terms of noteholders as discussed in *Note 7 – Convertible Notes*.

NOTE 12 – CUSTOMER CONCENTRATION

As of December 31, 2018, three separate customers accounted for approximately 56% of the Company’s total accounts receivable. As of December 31, 2017, three separate customers accounted for approximately 78% of the Company’s total accounts receivable.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

On April 7, 2016, the Company executed an agreement with a service provider to provide certain services for the Company. In addition to cash and stock compensation, the agreement requires 1% of the outstanding common share equivalent to be issued to the third party when the market capitalization of the Company reaches \$500 and an additional 1% when it reaches \$750. The Company recorded an expense associated with the non-variable portion of the agreement. However, the probability of the Company’s market capitalization reaching these thresholds is uncertain at present and the Company has not accrued a contingent fee as of December 31, 2018.

On February 12, 2018, the Company was served with a complaint from Viber Media, Inc. (“Viber”) for reimbursement of attorney’s fees and costs totaling \$528 arising from a past litigation with Viber. The Company is vigorously defending their rights in this case as we believe this demand is premature as litigation is ongoing. The Company has no accrual related to this complaint as of December 31, 2018 given the premature nature of the motion.

On July 6, 2017, the Company received notice an existing legal claim against Accent InterMedia (“AIM”) had been amended to include claims against the Company. The claims brought against the Company include failure to comply with certain judgments for collection of funds by the plaintiff while having a controlling interest in AIM via its ownership of Transaction Processing Products (“TPP”). The Company believes the amended case is without merit and that, per its agreement to sell its interest in TPP, any claims brought against AIM or TPP would be the responsibilities of the current interest holders. Due to the original suit being filed against AIM and amended to include the Company after it disposed of its interest in TPP, which had a controlling interest in AIM, we believe it likely the Company and its subsidiaries will be dismissed as defendants.

On December 20, 2017, a Complaint was filed by J. P. Carey Enterprises, Inc., alleging a claim for \$473 related to the Franjose Yglesias-Bertheau filed lawsuit against PLKD listed above. Even though the Company made the agreed payment of \$10 on January 2, 2017 and issued 12,002 shares as conversion of the \$70 note as agreed in the settlement agreement, the Plaintiff alleges damages which the Company claims are without merit because they received full compensation as agreed. The Company is in the process of defending itself against these claims. The Company has not accrued losses related to this claim due to the early stages of litigation. On January 28, 2019, J. P. Carey Enterprises, Inc. filed a similar claim against the Company in Fulton County, Georgia. The Company is vigorously defending its position in this case.

During 2016, Limecom had disputed accounts payable with three (3) carriers, for which the Company entered into separate settlement agreements, totaling approximately \$1,147. Under the terms of these settlement agreements, the Company was provided with extended payment terms on the outstanding balances. These settlement agreements are non-interest bearing and include certain default provisions as disclosed in the related agreements. On October 23, 2017, this liability was \$676. Limecom repaid \$10 from the date of acquisition through December 31, 2017 and \$95 during the nine months ended September 30, 2018. The remaining outstanding principal balance of these settlement agreements amounted to approximately \$571 and \$666 as of December 31, 2018 and December 31, 2017, respectively. Of these totals, \$571 and \$546 is current and included in accrued liabilities and \$0 and \$120 is long term and represented by other long-term liabilities as of December 31, 2018 and December 31, 2017, respectively.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

Prior to October 23, 2017 (the date of Limecom acquisition), Limecom had entered into a settlement agreement with American Express As of the date of the Limecom acquisition, there was a total outstanding balance of \$892. The Company made repayments totaling \$435 leaving a remaining balance due of \$457, as of December 31, 2018. The balance of \$457 is included in other accounts liabilities.

On August 9, 2018, Limecom was served with a complaint by Spectrum Intelligence Communications Agency LLC (SICA) whereby SICA claims that Limecom owes them a total of \$439. Limecom is in the process of defending and potentially negotiating a settlement with SICA. The Company is not listed as a Defendant in this matter.

On September 28, 2018, the Company was notified of a complaint filed against it by a former supplier. The Company has not yet received formal service of the complaint and is awaiting such service at which time it can fully assess the complaint. The Company has not accrued any losses as of December 31, 2018 related to the complaint given the early nature of the process.

On October 23, 2017, the Company assumed a settlement liability Limecom had entered into with American Express as part of its acquisition as discussed in *Note 1 – Organization and Description of Business*. As of the date of acquisition, there was a total outstanding balance of \$995,158. The Company made repayments totaling \$102,727 from the period of October 23, 2017 to December 31, 2017 leaving a remaining balance due of \$892,431 as of December 31, 2017. The balance due is included in accrued liabilities as of December 31, 2017.

On November 7, 2018, the Company was served with a complaint by a service provider claiming Breach of Contract for \$29. The Company has not accrued any losses as of December 31, 2018 related to the complaint given the early nature of the process.

On November 7, 2018, the Company was served with a complaint by IDT Domestic Telecom, Inc. vs the Company and its subsidiary Limecom, Inc. for telecommunications services provided to the Subsidiary during 2018 in the amount of \$50. The Company has no accrual as of December 31, 2018 related to the complaint given the early nature of the process. The Company intends to file a motion to dismiss the Company as a defendant since the Company has no contractual relationship with the plaintiff.

The Company executed a lease for office space effective July 10, 2018 with a term to October 31, 2018. The lease requires monthly rental payments of \$5. Total future guaranteed payments under this lease are \$5.

NOTE 14 – INCOME TAXES

On December 22, 2017, the U.S. enacted new tax reform legislation which reduced the corporate tax rate to 21% effective for tax year beginning January 1, 2018. Under ASC 740, the effects of new tax legislation are recognized in the period which includes the enactment date. As a result, the deferred tax assets and liabilities existing on the enactment date must be revalued to reflect the rate at which these deferred balances will reverse. The corresponding adjustment would generally affect the Income Tax Expense (Benefit) shown on the financial statements. However, since the company has a full valuation allowance applied against all of its deferred tax asset, there is no impact to the Income Tax Expense for the year ending December 31, 2018.

IRC Section 382 potentially limits the utilization of NOLs and tax credits when there is a greater than 50% change of ownership. The Company has not performed an analysis under IRC 382 related to changes in ownership, which could place certain limits on the company's ability to fully utilize its NOLs and tax credits. The Company's has added a note to its financial statements to disclose that there may be some limitations and that an analysis has not been performed. In the interim, the Company has placed a full valuation allowance on its NOLs and other deferred tax items.

We recognized income tax benefits of \$0 and \$1,087 during the years ended December 31, 2018 and 2017. The income tax benefit recognized during the year ended December 31, 2017 is the result of releasing a portion of the Company's valuation allowance against its deferred tax asset equal to the amount of net deferred tax liability assumed with our acquisition of Limecom as discussed in *Note 2*. When it is more likely than not that a tax asset will not be realized through future income the Company must allow for this future tax benefit. We provided a full valuation allowance on the net deferred tax asset, consisting of net operating loss carry forwards, because management has determined that it is more likely than not that we will not earn income sufficient to realize the deferred tax assets during the carry forward period. Effective December 22, 2017 a new tax bill was signed into law that reduced the federal income tax rate for corporations from 35% to 21%. The new bill reduced the blended tax rate for the Company from 39.50% to 26.50%.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

The SEC has issued guidance in Staff Accounting Bulletin No. 118 that allows for a measurement period of up to one year after the enactment date of the 2017 Tax Reform to finalize the recording of the related tax impacts. The Company currently anticipates finalizing and recording any resulting adjustments by the end of fiscal year 2018.

The Company has not taken a tax position that, if challenged, would have a material effect on the financial statements for the years ended December 2018 or 2017 applicable under FASB ASC 740. We did not recognize any adjustment to the liability for uncertain tax position and therefore did not record any adjustment to the beginning balance of accumulated deficit on the balance sheet. All tax returns for the Company remain open.

Reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the Statement of Operations, is as follows:

| | Year ended December 31, | |
|--|----------------------------------|-------------|
| | 2018 | 2017 |
| Loss before taxes, as reported in the consolidated statements of operations | \$ 3,585 | \$ 1,812 |
| Federal and State statutory rate | 26.5% | 39.5% |
| Theoretical tax benefit on the above amount at federal statutory tax rate | 950 | 715 |
| income tax benefit due to the acquisition of Limecom | - | 1,087 |
| Losses and other items for which a valuation allowance Was provided or benefit from loss carry forward | (950) | (1,802) |
| Actual tax income (expense) | - | - |
| | 2018 | 2017 |
| | U.S. dollars in thousands | |
| Deferred tax assets: | | |
| Net operating loss carry-forward | \$ 2,015 | \$ 962 |
| Adjustments | (578) | (219) |
| Valuation allowance | (1,437) | (743) |
| | \$ - | \$ - |

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Management has determined, based on its recurring net losses, lack of a commercially viable product and limitations under current tax rules, that a full valuation allowance is appropriate.

| | U.S. dollars in thousands |
|--|--------------------------------------|
| Valuation allowance, December 31, 2017 | \$ 743 |
| Increase | 694 |
| Valuation allowance, December 31, 2018 | \$ 1,437 |

The net federal operating loss carry forward will begin expire in 2038. This carry forward may be limited upon the consummation of a business combination under IRC Section 382.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

NOTE 15 – SUBSEQUENT EVENTS

On January 29, 2019, the Company and Heritage agreed to extend the right of the Company to rescind at its option, to sell back the stock in Limecom back to Heritage in consideration for the following:

- (a) The 138,147 shares of the Company issued to Heritage and its Stockholders will not be returned to the Company, and the remaining 34,537 shares of the Company will not be issued to Heritage. Instead, it was agreed that the Company will issue an additional 90,000 shares of the Company as directed by Heritage. The Company also agreed to issue 20,740 shares of the Company's restricted stock to several Limecom employees in exchange for salaries due to them.
- (b) The \$1,807 payment under the Limecom Purchase Agreement will be cancelled.
- (c) The Employment Agreement with Orlando Taddeo as International CEO of Limecom will be terminated.
- (d) Heritage and the Limecom agreed that the intercompany loans in the amount of \$231 will be cancelled.

On January 30, 2019, Cuentas sent an executed document to Limecom rescinding the acquisition of Limecom, Inc. ("Limecom") according to the Amendment signed January 29, 2019.

Pro forma results

The following are unaudited pro forma financial information for the years ended December 31, 2018 and 2017 presents the condensed consolidated and combined statements of operations of the Company and the rescission of the acquisition described above, as if the acquisitions had not occurred. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's condensed consolidated and combined statements of operations that would have been reported had these acquisitions been completed as of the beginning of the period presented and should not be taken as indicative of the Company's future condensed consolidated statements of operations.

| | Year Ended December 31 | |
|---|-----------------------------------|-------------|
| | 2018 | 2017 |
| Revenues | \$ 1,302 | \$ 2,149 |
| Net Income (Loss) before controlling Interest | 41 | (3,212) |
| Net Income (Loss) | 65 | (3,196) |
| Basic and diluted net income (loss) earnings per common share | 0.05 | \$ (3.54) |

On January 29, 2019, the United States Bankruptcy Court Southern District of Florida Miami Division approved a Plan of Reorganization for Next Communications, Inc., whereby Cuentas Inc. would pay \$600 to a specific creditor in consideration for the forgiveness of the balance of the payable balance.

On January 7, 2019, the Company issued 16,667 shares of its common stock pursuant to a Securities Purchase Agreement which it entered on September 21, 2018. The fair market value of the shares at the subscription date was \$50.

CUENTAS, INC.
(FORMERLY NEXT GROUP HOLDINGS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(U.S. dollars in thousands, except share and per share data)

On January 7, 2019, the Company received \$50 under a private placement of and issued 16,667 shares of its common stock and warrants to purchase up to 16,667 shares of its common stock at an exercise price equal to \$3.25 per share under a private placement of securities closed on December 13, 2018.

On February 12, 2019, the Company issued warrants to purchase up to 35,834 shares of its common stock at an exercise price equal to \$3.25 per share under the October 25, 2018 private placement.

On February 28, 2018, the Company issued 309,497 shares of its common stock pursuant to a settlement of stock-based liabilities. The fair market value of the shares was \$464.

On February 28, 2019, The Company signed a Binding Term Sheet with Optima Fixed Income LLC (“Optima”) for a total investment of \$2,500 over one year and received the first deposit of \$500 on the same date. Under the Binding Term Sheet, it was agreed that the initial invested amount of \$500 will in consideration of 166,667 shares of Common Stock of the Company. It was also agreed that Optima may purchase a Convertible Note in the amount of \$2,000, which may be funded on a quarterly basis. The term of the Convertible Note shall be three years and it may be converted with a discount of 25% on the share price at date of conversion, but in any case, not less than \$3 per share. In any case, the total investment in the Company shall be not be less than 25% of the outstanding shares at the first anniversary of this Binding Term Sheet.

(b) Exhibits

| Exhibit Number | Exhibit Description | Filed herewith | Incorporated by reference | | | |
|----------------|--|----------------|---------------------------|---------------|---------|-------------|
| | | | Form | Period ending | Exhibit | Filing date |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act | X | | | | |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act | X | | | | |
| 32.1 | Certification Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act | X | | | | |
| 32.2 | Certification Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act | X | | | | |
| 101.INS | XBRL Instance Document | X | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema | X | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | X | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | X | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | X | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | X | | | | |

SIGNATURES

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

Cuentas, Inc.

By: /s/ Arik Maimon
Arik Maimon,
Chief Executive Officer
Date: April 15, 2019

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.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--------------------------------------|----------------|
| <u>/s/ Arik Maimon</u> Arik Maimon | Chief Executive Officer and Director | April 15, 2019 |
| <u>/s/ Ran Daniel</u> Ran Daniel | Chief Financial Officer | April 15, 2019 |
| <u>/s/ Michael De Prado</u> Michael De Prado | President and Director | April 15, 2019 |
| <u>/s/ Adiv Baruch</u> Adiv Baruch | Chief Strategy Officer and Director | April 15, 2019 |
| <u>/s/ Natali Dadon</u> Natali Dadon | Director | April 15, 2019 |
| <u>/s/ Richard J. Berman</u> Richard Berman | Director | April 15, 2019 |

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Arik Maimon, certify that:

1. I have reviewed this Form 10-K of Cuentas Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2019

/s/ Arik Maimon

Arik Maimon

Chief Executive Officer

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Ran Daniel, certify that:

1. I have reviewed this Form 10-K of Cuentas Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2019

/s/ Ran Daniel

Ran Daniel
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report on Form 10-K of Cuentas Inc. (the "Company") for the twelve-months ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Arik Maimon, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 15, 2019

By: /s/ Arik Maimon
Arik Maimon
Chief Executive Officer

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report on Form 10-Q/A of Cuentas Inc. (the "Company") for the twelve-months ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ran Daniel, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 15, 2019

By: /s/ Ran Daniel
Ran Daniel
Chief Financial Officer

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.