ALLDIGITAL HOLDINGS, INC.
Form 10-Q
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2014**

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

For the transition period from ______ to _______

Commission File Number: **333-141676**

ALLDIGITAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada	**20-5354797**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
220 Technology Drive Suite 100, Irvine, California	**92618**
(Address of principal executive offices)	(zip code)

(949) 250-7340

(Registrant's telephone number, including area code)

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 [X] No [ ]

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

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

As of November 13, 2014, there were 36,651,678 shares of the registrant's common stock, $0.001 par value per share, outstanding.

CAUTIONARY STATEMENT

All statements included or incorporated by reference in this Quarterly Report on Form 10-Q (this “Form 10-Q”), other than statements or characterizations of historical fact, are “forward-looking statements.” Examples of forward-looking statements include, but are not limited to, statements concerning projected sales, costs, expenses and gross margins; our accounting estimates, assumptions and judgments; the prospective demand for our products; the projected growth in our industry; the competitive nature of and anticipated growth in our industry; and our prospective needs for, and the availability of, additional capital. These forward-looking statements are based on our current expectations, estimates, approximations and projections about our industry and business, management’s beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by such words as “anticipates,” “expects,” “intends,” “plans,” “predicts,” “believes,” “seeks,” “estimates,” “may,” “will,” “should,” “would,” “could,” “potential,” “continue,” “ongoing,” similar expressions and variations or negatives of these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are set forth in the “Risk Factors” section of this Report, which could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially. These forward-looking statements speak only as of the date of this report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLDIGITAL HOLDINGS, INC

CONSOLIDATED BALANCE SHEETS

	September 30, 2014 *(Unaudited)*	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$139,306	$1,300,932
Accounts receivable, net of allowance of $0- and $10,000	291,869	454,733
Prepaid expenses and other current assets	186,551	82,324
Total current assets	617,726	1,837,989
Property and equipment, net	75,148	86,648
Assets under capital lease, net	79,148	—
Deposits	11,164	11,164
Intangibles – domain names	25,763	22,000
Total assets	$808,949	$1,957,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$650,175	$563,889
Capital lease obligations, current portion	27,568	—
Deferred revenue	26,235	355,770
Total current liabilities	703,978	919,659
Capital Lease Obligations, long-term portion	50,431	—
Total liabilities	754,409	919,659
Stockholders' Equity		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, none and none issued and outstanding, respectively	—	—
Common stock, $0.001 par value, 90,000,000 shares authorized, 36,651,678 and 33,231,977 issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	36,652	33,233
Additional paid-in capital	4,561,187	3,978,462
Accumulated deficit	(4,543,299)	(2,973,553)
Total stockholders' equity	54,540	1,038,142

Total liabilities and stockholders' equity	$808,949	$1,957,801

See accompanying notes to these unaudited consolidated financial statements.

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ALLDIGITAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net sales	$949,866	$959,882	$2,762,535	$2,998,176
Cost of sales	595,133	680,105	2,470,556	1,956,916
Gross profit (loss)	354,733	279,777	291,979	1,041,260
Operating expenses				
Selling, marketing, and advertising	146,942	151,961	561,236	368,401
General and administrative	441,736	405,041	1,322,441	1,245,631
Total operating expenses	588,678	557,002	1,883,677	1,614,032
Loss from operations	(233,945)	(277,226)	(1,591,698)	(572,772)
Other income (expense)				
Interest income	71	129	652	413
Interest expense	(152)	—	(670)	—
Other income (expense)	—	—	25,170	66,653
Total other income (expense)	(81)	129	25,152	67,066
Loss from operations before provision for income taxes	(234,026)	(277,097)	(1,566,546)	(505,706)
Provision for income taxes	(1,600)	(800)	(3,200)	(1,600)
Net loss	$(235,626)	$(277,897)	$(1,569,746)	$(507,306)
Basic and diluted net loss per share	$(0.01)	$(0.01)	$(0.04)	$(0.02)
Basic and diluted weighted-average shares outstanding	36,345,857	25,444,728	35,709,742	25,444,523

See accompanying notes to these unaudited consolidated financial statements.

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ALLDIGITAL HOLDINGS, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2014	2013
Cash Flows From Operating Activities		
Net loss	$(1,569,746)	$(507,306)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	54,196	39,118
Stock based compensation	85,645	155,556
Stock issued for services	87,999	—
Loss on disposal of property and equipment	21,595	—
Changes in operating assets and liabilities:		
Accounts receivable	162,864	9,822
Prepaid expenses and other current assets	(125,822)	(40,737)
Deferred revenue	(329,535)	341,490
Accounts payable and accrued expenses	86,286	3,266
Net cash provided by (used in) operating activities	(1,526,518)	1,209
Cash Flows From Investing Activities		
Purchase of property and equipment	(32,172)	(51,128)
Payment for intangible-domain name	(3,763)	(2,250)
Net cash used in investing activities	(35,935)	(53,378)
Cash Flows From Financing Activities		
Payments made to capital lease	(11,673)	—
Issuance of convertible notes	—	1,485,000
Issuance of common stock	412,500	—
Proceeds from exercise of stock options	—	1,000
Net cash provided by financing activities	400,827	1,486,000
Net increase (decrease) in cash and cash equivalents	(1,161,626)	1,433,831
Cash and cash equivalents – beginning of period	1,300,932	462,761
Cash and cash equivalents – end of period	$139,306	$1,896,592
Supplemental disclosures of cash flow information:		
Interest paid	670	—
Income taxes paid	$3,200	$1,600

Supplemental schedule of noncash investing and financing activities:

During the nine months ended September 30, 2014, the Company entered into noncash capital lease financing for computer and other equipment totaling $89,672. During the nine months ended September 30, 2013, the Company entered into no noncash transactions.

See accompanying notes to these unaudited consolidated financial statements.

ALLDIGITAL HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BUSINESS

AllDigital, Inc. (“AllDigital” or the “Company”) was incorporated in the State of California on August 3, 2009, with the primary purpose of providing digital broadcasting solutions dedicated to managing the complex pairing of cloud-based digital media and digital services with Internet—connected devices.

Our digital broadcasting solutions consist of the technology and services required to develop, operate and support a variety of complex digital service and digital broadcasting workflow implementations across a diverse market of devices. We accomplish this by enabling, and maximizing the performance of, the cloud-based storage, processing, and transit of digital media and digital services to multiple devices simultaneously. Our business model targets a variety of entities and existing providers of digital services that need to develop, operate and support a cost—effective, high quality and secure digital service, through a digital broadcasting workflow, across a large and diverse market of devices.

Our ability to successfully generate future revenues is dependent on a number of factors, including: (i) the availability of capital to continue to develop, operate and maintain our proprietary AllDigital Cloud platform and services, (ii) the ability to commercialize our portfolio of digital broadcasting solutions to media and entertainment companies, enterprises, government agencies, and nonprofits, and (iii) our ability to attract and retain key sales, business and product development, and other personnel as our business and offerings continue to mature. We may encounter setbacks related to these activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

We have prepared the accompanying consolidated unaudited financial statements in accordance with the accounting principles generally accepted in the United States of America, (“GAAP”), for interim financial statements and with instructions to Form 10—Q pursuant to the rules and regulations of Securities and Exchange Act of 1934, as amended (the “Exchange Act”) and Article 8-03 of Regulation S—X promulgated under the Exchange Act. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, we have included all adjustments considered necessary (consisting of normal recurring adjustments) for a fair presentation. Operating results for the three and nine months ended September 30, 2014 are not indicative of the results that may be expected for the fiscal year ending December 31, 2014. 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. You should read these unaudited consolidated financial statements in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Our consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. The use of estimates may also affect the reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management include, among others, estimates of costs used in the calculation of percentage of completion contracts, realization of capitalized assets, valuation of equity instruments and other instruments indexed to the Company's common stock, and deferred income tax valuation allowances. Actual results could differ from those estimates. Following are discussion of the Company's significant accounting policies.

Liquidity

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of conducting its business. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability or classification of assets and liabilities that may result from the outcome of this uncertainty. The Company has incurred recurring losses and has accumulated losses aggregating approximately $4.5 million as of September 30, 2014. The Company's business strategy includes attempting to increase its revenue through investing further in its product development and sales and marketing efforts, expanding into certain international markets and the possibly engaging in strategic acquisitions or otherwise taking steps to more rapidly increase its growth rates. The Company intends to finance this portion of its business strategy by using its current working capital resources, which include the proceeds from its secured note offering (see Note 10 – Subsequent Events), and cash flows from operations. Management believes its cash flows from operations, together with its current working capital resources and future capital raises will be sufficient to fund ongoing operations through at least September 30, 2015.

Principles of Consolidation

The consolidated financial statements include the accounts of AllDigital, Inc. that are consolidated in conformity with GAAP. AllDigital, Inc. is wholly—owned by AllDigital Holdings, Inc. There are no intercompany transactions as all accounts are in the name of AllDigital, Inc.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Revenue Recognition

The Company recognizes recurring and nonrecurring service revenue in accordance with the authoritative guidance for revenue recognition, including guidance on revenue arrangements with multiple deliverables. In general, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the resulting receivable is reasonably assured.

Revenue from certain design and development contracts, where a solution is designed, developed or modified to a customer's specifications, is recognized on a percentage of completion basis in accordance with ASC 605-35 based on the cost-to-cost method, provided such costs can be reasonably estimated. The Company's revenue recognition practices related to such contracts include: developing an approved budget; comparing actual period costs to the budget as a percentage; recognizing revenue for the period based upon the percentage of actual costs incurred compared to total estimated costs, and; performing monthly budget-actual reviews, updates, and adjustments as needed. The impact on revenues as a result of these revisions is included in the periods in which the revisions are made. For contracts for which the Company is unable to reasonably estimate total contract costs, the Company waits until contract completion to recognize the associated revenue.

Nonrecurring revenues include "on-boarding" professional services that involve the development or integration of a customer's software application, digital service, system, or Application Programming Interface ("API") to connect with the AllDigital platform. On-boarding professional services projects are typically of a short duration and smaller revenue amounts. The Company recognizes revenue for on-boarding professional services upon project completion and acceptance.

Monthly recurring revenues are recognized ratably over the period in which they are delivered and earned. The Company typically charges monthly recurring platform fees, as well as monthly recurring charges for our back-end storage, cloud processing, origin transit, and maintenance and support services. These fees are generally billed based on a minimum commitment plus actual usage basis, and the term of such customer contracts vary typically from 12 to 24 months.

Rarely, a customer contract will include revenue arrangements that consist of multiple product and service deliverables. Such contracts are accounted for in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 605-25. For the Company's multiple-element arrangements, deliverables are separated into more than one unit of accounting when (i) the delivered element(s) have value to the customer on a stand-alone basis, and (ii) delivery of the undelivered element(s) are probable and substantially in the control of the Company. Revenue is then allocated to each unit of accounting based on the estimated selling price determined using a hierarchy of evidence based first on Vendor-Specific Objective Evidence ("VSOE") if it exists, based next on Third-Party Evidence ("TPE") if VSOE does not exist, and finally, if both VSOE and TPE do not exist, based on the Company's best estimate of selling price ("BESP"). If deliverables cannot be separated into more than one unit, then the Company does not recognize revenue until all deliverables have been delivered and accepted.

Accounts Receivable

Accounts receivable are recorded at their face amount less an allowance for doubtful accounts. The allowance for doubtful accounts reflects management's best estimate of probable losses in the accounts receivable balance. Management determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. The allowance for doubtful accounts was zero at September 30, 2014 and $10,000 at December 31, 2013. The Company generally requires a deposit or advance services payments from its customers for certain contracts involving upfront capital investment, on-boarding, or development contracts to facilitate its working capital needs.

Earnings and Loss per Share

The Company computes net earnings (loss) per share in accordance with ASC 260-10 that establishes standards for computing and presenting net earnings (loss) per share. Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

At September 30, 2014, the Company had warrants to purchase 1,735,408 shares of the Company's common stock and options to purchase 8,267,750 shares of the Company's common stock outstanding that could potentially increase the number of shares outstanding. At September 30, 2013, the Company had warrants to purchase 3,892,274 shares of the Company's common stock and options to purchase 6,059,583 shares of the Company's common stock outstanding that could potentially increase the number of shares outstanding. These instruments were excluded from the computation of the diluted net loss per share for the three months and nine months ended September 30, 2014 and 2013, as their impact is anti-dilutive.

Fair Value of Measurements

Fair value is defined as 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. Assets and liabilities recorded at fair value in the accompanying consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level Input:	Input Definition:
Level 1	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Assets subject to this classification at September 30, 2014, and December 31, 2013, were cash and cash equivalents and are considered Level 1 assets.

For certain of the Company's financial instruments, including accounts receivable, prepaid expenses, and accounts payable, the carrying amounts approximate fair value due to their short maturities. The carrying amount of the Company's notes payable approximates fair value based on prevailing interest rates.

Income Taxes

We account for income taxes in accordance with ASC 740-10, *Income Taxes*. We recognize deferred tax assets and liabilities to reflect the estimated future tax effects, calculated at the tax rate expected to be in effect at the time of realization. We record a valuation allowance related to a deferred tax asset when it is more likely than not that some portion of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates at the date of enactment.

ASC 740-10 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. We classify interest and penalties as a component of interest and other expenses. To date, we have not been assessed, nor have we paid, any interest or penalties.

The Company follows guidance issued by the FASB with regard to its accounting for uncertainty in income taxes recognized in the financial statements. Such guidance prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Repairs and maintenance of equipment are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	5 years
Computer equipment	3 years
Software	3 years
Signs	3 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Gains or losses on dispositions of property and equipment are included in the results of operations when realized.

Impairment of Long-Lived and Intangible Assets

The Company accounts for long-lived assets, that include property and equipment and identifiable intangible assets with infinite useful lives, in accordance with FASB ASC 350-30, that requires that the Company review long-lived assets for impairment whenever events or changes in circumstances indicate that the Company may not recover the carrying amount of an asset. The Company measures recoverability by comparing the carrying amount of an asset to the expected future undiscounted net cash flows generated by the asset. If the Company determines that the asset may not be recoverable, the Company recognizes an impairment charge to the extent of the difference between the asset's fair value and the asset's carrying amount. The Company had no impairment charges during the three or nine months ended September 30, 2014 and 2013.

Stock-Based Compensation

The Company accounts for share-based compensation arrangements in accordance with FASB ASC 718, which requires the measurement and recognition of compensation expense for all share-based payment awards to be based on estimated fair values. The Company uses the Black-Scholes option valuation model to estimate the fair value of our stock options at the date of grant. The Black-Scholes option valuation model requires the input of subjective assumptions to calculate the value of stock options. The Company uses historical data among other information to estimate the expected price volatility and the expected forfeiture rate.

Recent Accounting Pronouncements

In August 2014, the FASB issued FASB ASU2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. FASB ASU 2014-15 changes to the disclosure of uncertainties about an entity's ability to continue as a going concern. Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Even if an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. Because there is no guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related note disclosures, there is diversity in practice whether, when, and how an entity discloses the relevant conditions and events in its financial statements. As a result, these changes require an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that financial statements are issued. Substantial doubt is defined as an indication that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that financial statements are issued. If management has concluded that substantial doubt exists, then the following disclosures should be made in the financial statements: (i) principal conditions or events that raised the substantial doubt, (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, (iii) management's plans that alleviated the initial substantial doubt or, if substantial doubt was not alleviated, management's plans that are intended to at least mitigate the conditions or events that raise substantial doubt, and (iv) if the latter in (iii) is disclosed, an explicit statement that there is substantial doubt about the entity's ability to continue as a going concern. These changes become effective for the Company for the 2016 annual period. Management has determined that the adoption of these changes will not have an impact on the Consolidated Financial Statements. Subsequent to adoption, this guidance will need to be applied by management at the end of each annual period and interim period therein to determine what, if any, impact there will be on the Consolidated Financial Statements in a given reporting period.

In July 2013, the FASB issued Accounting Standards Updates (“ASU”) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (Topic 740). ASU 2013-11 requires that unrecognized tax benefits be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. When those circumstances exist, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company adopted this guidance effective January 1, 2014. The Company does not believe the adoption of ASU 2013-11 has significant impact on its consolidated financial statements.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2014 and December 31, 2013 consisted of the following:

	September 30, 2014 (unaudited)	**December 31, 2013**
Furniture and fixtures	$ 13,567	$ 13,568
Computer equipment	171,757	139,584
Signs	2,050	2,050
Software	45,833	45,833
Equipment purchased on capital leases	89,672	—
Less accumulated depreciation and amortization	(168,583)	(114,387)
	$ 154,296	$ 86,648

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of September 30, 2014 and December 31, 2013 consisted of the following:

	September 30, 2014 (unaudited)	December 31, 2013
Accounts payable	$ 416,547	$ 316,096
Accrued personnel costs	143,021	188,866
Accrued professional fees	17,850	6,800

Other	72,757	52,127
	$ 650,175	$ 563,889

NOTE 5 - LEASE OBLIGATIONS

Capital Leases

The following is an analysis of property under capital leases by major classes at September 30, 2014. As of December 31, 2013, the Company held no assets under capital leases.

Classes of Property	
Leasehold improvements	20,182
Computer equipment	69,490
Total assets under capital leases	89,672
Less: Accumulated amortization	(10,524)
Capital leased assets, net of depreciation	79,148

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The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of September 30, 2014.

	Year ended September 30,
2015	32,616
2016	32,616
2017	22,546
Total minimum lease payments	87,778
Less: Amount representing interest	(9,779)
Present value of net minimum lease payments	77,999

The present value of net minimum lease payments is reflected in the balance sheet as current and noncurrent obligations under capital leases of $27,568 and $50,431, respectively.

Operating Leases

In 2011, the Company entered into a Lease Agreement for office space at 220 Technology Drive, Suite 100, Irvine, California, 92618, which is used as its corporate office. The initial three-year term expires December 31, 2014, and lease renewal is possible upon mutual agreement of the parties. Rent for the remaining lease term is $10,717 per month. Operating lease expense for the nine months ended September 30, 2014 and 2013 was $186,580 and $145,472, respectively.

The Company has entered into various non-cancelable operating leases for computer servers and phone equipment. At September 30, 2014, future minimum rental commitments under these operating leases are:

Year ended September 30,	
2015	$108,707
2016	59,750
2017	9,903
Total	$178,360

NOTE 6 - STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Board of Directors has the authority to issue Preferred Stock in one or more series and to, within the limits set forth by Nevada law and without shareholder action:

- designate in whole or in part, the powers, preferences, limitations, and relative rights, of any class of shares before the issuance of any shares of that class;
- create one or more series within a class of shares, fix the number of shares of each such series, and designate, in whole or part, the powers, preferences, limitations, and relative rights of the series, all before the issuance of any shares of that series;
- alter or revoke the powers, preferences, limitations, and relative rights granted to or imposed upon any wholly unissued class of shares or any wholly unissued series of any class of shares; or
- increase or decrease the number of shares constituting any series, the number of shares of which was originally fixed by the Board of Directors, either before or after the issuance of shares of the series; provided that, the number may not be decreased below the number of shares of the series then outstanding, or increased above the total number of authorized shares of the applicable class of shares available for designation as a part of the series.

The issuance of Preferred Stock by the Company's Board of Directors could adversely affect the rights of holders of our common stock. The potential issuance of Preferred Stock may:

- have the effect of delaying or preventing a change in control of the Company;
- discourage bids for the common stock at a premium over the market price of the common stock; and
- adversely affect the market price of, and the voting and other rights of the holders of our common stock

.

As of September 30, 2014, there were no shares of preferred stock issued or outstanding.

Common Stock

2,250,000 shares of the Company's common stock were sold in January 2014 at a price of $0.15 per share to a newly appointed member of the Company's Board of Directors and executive officer. 150,000 shares of common stock were issued in February 2014 as compensation to a service provider. In May 2014, the Company sold 400,000 shares and 100,000 shares of its common stock, respectively, to two of its officers who are also members of its board of directors, at a purchase price of $0.15 per share. In May and June 2014, respectively, 66,667 shares and 76,923 shares of the Company's common stock were issued to a service provider. In July, August, and September 2014, respectively, 100,000 shares, 111,111 shares, and 165,000 shares were issued to service providers. The shares issued to service providers were measured at their grant date fair value and recognized as an expense in the accompanying consolidated statement of operations.

Stock Options

In 2011 the Company established the 2011 Stock Option and Incentive Plan (the "Plan") for directors, employees, consultants and other persons acting on behalf of the Company, under which 8,500,000 shares of common stock are authorized for issuance. Options granted under the Plan vest on the date of grant, over a fixed period of time, or upon the occurrence of certain events and have a contractual term of up to ten years.

A summary of the status of the options granted is as follows:

	Number of Shares Underlying Options	Weighted average exercise price	Weighted Average remaining contractual term - years
Outstanding, December 31, 2013	6,649,500	$ 0.22	8.21
Granted	9,398,000	$ 0.12	9.74
Forfeited/Expired	(7,779,750)	$ 0.19	-
Outstanding, September 30, 2014	8,267,750	$ 0.13	9.57
Exercisable, September 30, 2014	905,534	$ 0.21	7.96
Expected to vest, September 30, 2014(*)	6,322,814	$ 0.12	9.54

(*) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

At September 30, 2014, 8,267,750 shares of common stock were reserved for issuance under outstanding options under the Plan and 232,250 shares of common stock were available for grant under the Plan.

As of September 30, 2014, there was $618,536 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 3.8 years. The aggregate intrinsic value of the options outstanding at September 30, 2014 was $40,000 and the aggregate intrinsic value of the options exercisable or expected to vest in the future was $34,352.

Stock-based compensation expense for the nine months ended September 30, 2014 and 2013 was $85,645 and $155,556 respectively.

The fair value of the options granted by AllDigital Holdings, Inc., for the nine months ended September 30, 2014 and 2013 is estimated at $756,561 and $259,395 respectively.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. The determination of the fair value of each stock option is affected by our stock price on the date of grant, as well as assumptions regarding a number of highly complex and subjective variables. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The assumptions used to value stock options are as follows:

	Period Ended September 30, 2014	December 31, 2013
Dividend yield	-	-
Risk-free interest rate	1.65%	1.66% to 3.04 %
Volatility	193 %	196 %
Expected life (in years)	7.0	6.5
Weighted average grant date fair value per share of options granted	$0.09	$0.15

The dividend yield is zero as the Company has not paid and currently does not anticipate paying dividends.

The risk-free interest rate is based on the U.S. Treasury bond.

Volatility is estimated based on comparable companies in the industry.

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Warrants

A summary of the status of the warrants granted is as follows:

	Shares issuable upon exercising of outstanding warrants	**Weighted-average exercise price**
Outstanding – December 31, 2013	3,892,274	$ 0.49
Granted	—	—
Forfeited	2,156,866	—
Exercised	—	—
Outstanding – September 30, 2014	1,735,408	$ 0.47
Exercisable – September 30, 2014	1,735,408	$ 0.47

The following table summarizes information about warrants outstanding at September 30, 2014:

Outstanding				**Exercisable**	
Range of exercise prices	**Number of shares issuable upon exercise of outstanding warrants**	**Weighted—average remaining contractual life (in years)**	**Weighted—average exercise price**	**Number of warrants exercisable**	**Weighted—average exercise price**
$0.25	150,000	1.92	$ 0.25	150,000	$ 0.25
$0.275	60,000	1.83	$ 0.275	60,000	$ 0.275
$0.50	1,525,408	0.07	$ 0.50	1,525,408	$ 0.50
$0.25 – $0.50	1,735,408	0.29	$ 0.47	1,735,408	$ 0.47

NOTE 7 - INCOME TAXES

The Company establishes a valuation allowance when it is more likely than not, that the Company's recorded net deferred tax asset will not be realized. In determining whether a valuation allowance is required, the Company must take into account all positive and negative evidence with regard to the utilization of a deferred tax asset. As of September 30, 2014 and December 31, 2013, the valuation allowance for deferred tax assets totaled approximately $1.3 million and $0.7 million, respectively. For the nine months ended September 30, 2014, the increase in the valuation allowance was $0.6 million.

The Company plans to continue to provide a full valuation allowance on future tax benefits until it can sustain an appropriate level of profitability and until such time, the Company would not expect to recognize any significant tax benefits in its future results of operations.

As of September 30, 2014, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $3.1 million and $3.0 million, respectively, which begin to expire in 2027. The utilization of net operating loss carryforwards may be limited under the provisions of Internal Revenue Code Section 382 and similar state provisions due to a change in ownership.

The Company has not recognized any liability for unrecognized tax benefits. The Company expects any resolution of unrecognized tax benefits, if created, would occur while the full valuation allowance of deferred tax assets is maintained; therefore the Company does not expect to have any unrecognized tax benefits that, if recognized, would affect the effective tax rate.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of September 30, 2014 and December 31, 2013, the Company had no accrual for the payment of interest or penalties. For Federal purposes, the years subject to examination are 2010-2014. For California purposes, the years subject to examination are 2009-2014.

NOTE 8 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Major Customers

At September 30, 2014 and December 31, 2013, two and two customers accounted for 63% and 71% of the outstanding accounts receivable, respectively.

For the three months ended September 30, 2014 and 2013, three and four customers accounted for 64% and 84% of total revenue, respectively.

For the nine months ended September 30, 2014 and 2013, three and four customers accounted for 64% and 71% of total revenue, respectively.

Major Vendors

At September 30, 2014 and December 31, 2013, three and three vendors accounted for 59% and 85% of the outstanding accounts payable, respectively.

For the three months ended September 30, 2014 and 2013, one and four vendors accounted for 14% and 57% of total purchases, respectively.

For the nine months ended September 30, 2014 and 2013, one and four vendors accounted for 14% and 67% of total purchases, respectively.

Concentrations of Credit Risk

Financial instruments that may subject the Company to credit risk include uninsured cash-in-bank balances. The Company places its cash with high quality financial institutions located in Southern California. From time to time, such balances exceed amounts insured by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to its cash balances. As of September 30, 2014, the Company's uninsured cash balance was $10,392.

NOTE 9 - SEGMENT INFORMATION

The Company currently operates in one business segment, digital media services. All fixed assets are located at the Company's headquarters and data centers are located in the United States. All sales for the three months ended September 30, 2014 were in the United States and Canada.

NOTE 10 - SUBSEQUENT EVENTS

In October and November 2014, the Company raised $750,000 through the sale of an aggregate of $750,000 in principal of our 5% Senior Secured Convertible Notes ("Notes"). The Notes are convertible at a conversion price of $0.15 per share into an aggregate of up to 5,000,000 shares of our common stock. The Notes are secured by all of the Company's assets. The Company used $400,000 of the proceeds from the sale of the Notes to acquire substantially all of the assets of Brevity Ventures, Inc. and management anticipates using the remaining proceeds for working capital purposes, including making strategic investments. Management expects that future available capital resources will consist primarily of cash on hand, cash generated from the business, if any, and future debt and/or equity financings, if any.

On October 17, 2014, the Company acquired substantially all of the assets of Brevity Ventures, Inc. out of bankruptcy, including technology and intellectual property that enables simultaneous transcoding while transporting video at high speeds. The U.S. Bankruptcy Court approved the transaction on September 25, 2014, and it was consummated on October 17, 2014 for the cash purchase price of $400,000. We are currently reviewing the accounting treatment for this transaction with further information forthcoming.

ITEM 2. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Throughout this Report, AllDigital Holdings, Inc. and AllDigital, Inc., as a consolidated entity, are referred to as "AllDigital", the "Company", "we" or "us." To the extent we need to distinguish AllDigital Holdings, Inc. from AllDigital, Inc., we refer to AllDigital Holdings, Inc. as "AllDigital Holdings" and to AllDigital, Inc. as "AllDigital, Inc." We have registered or are in the process of registering the AllDigital trademark. Any other trademarks and service marks used in this Report are the property of their respective holders.

Certain Technical Terms

In this Report, we use certain technical terms to describe our business, which terms are important to an understanding of our business, including the following:

"Apps" are software applications that operate on a device, and which can act as the front-end of a remotely hosted, cloud-based digital service.

"Content Management System" ("CMS") is a Software as a Service ("SaaS") platform that allows for the management of digital media assets, data exchange with digital services and data management.

"devices" are Internet-connected devices, including without limitation smartphones, tablet computers, desktop and laptop computers, gaming consoles, digital televisions, home theatre systems, streaming players, "smart" appliances and digital signage.

"digital broadcasting workflow" is a series of interconnected processes to ingest, store, prepare, secure, manage, monetize, convert and distribute live media feeds and video-on-demand and pay-per-view assets, as well as real-time data and other information to and from Apps on devices.

"digital services" are hosted, cloud-based software applications intended for use on, interactivity with, and the delivery of digital media to or from, one or more devices, through a digital broadcasting workflow. Examples of well-known digital services include NetFlix's Movies On-Demand, Hulu, Pandora Radio, Instagram, Twitter, MLB.com, Match.com, Pinterest and Facebook.

"pairing" is the process of setting up, managing and maintaining the ongoing data exchange between a digital service and a device through the applicable digital broadcasting workflow. Pairing includes not only the initial process of ensuring the compatibility of the digital service with one or more devices operating on one or more device platforms, but may also include any or all of the following:

Managing various elements of and processes related to the ongoing data exchange between a digital service and a device, including device compatibility, security, quality of service, data and signal flows, and dynamic updates;

Applying business rules (e.g., subscriber eligibility and authentication) and processing to live media feeds, video-on-demand (e.g., converting master video files into formats compatible with the target devices), real-time data and other data assets, and digital services; and

Acting as the origin for data exchange between the digital services, through the digital broadcasting workflow, to the devices.

General Business Overview

We provide digital broadcasting solutions. Our digital broadcasting solutions consist of the technology and related services required to develop, operate and support a variety of App and digital service implementations, through a digital broadcasting workflow, across a large and diverse market of devices. Our business model targets a variety of organizations and existing providers of digital services, such as media and entertainment companies, enterprises, government agencies, and nonprofits.

There are a number of technical, financial, personnel, and management challenges for media and entertainment companies, enterprises, and organizations wanting to successfully develop, operate and support a digital service through a digital broadcasting workflow to target devices. As demand continues to increase from both end-users and their devices requiring growing amounts of cloud-based digital media, data processing, services, and quality of service levels, we believe that these challenges will similarly increase.

Our CMS platform currently branded as “AllDigital Cloud” addresses a significant number of these challenges. AllDigital Cloud is a unified digital broadcasting and cloud services platform. It is dedicated to ingesting, storing, preparing, securing, managing, monetizing, converting and distributing digital media and other forms of data across devices. AllDigital Cloud enables and supports a variety of complex digital broadcasting workflows and digital service implementations. It also maximizes the performance of, and offers significant scale and pricing advantages related to, the cloud-based storage, cloud processing and origin transit of digital media to and from devices.

On August 29, 2014, we announced the sudden passing of Paul Summers, our former Chief Executive Officer, Chairman of the Board of Directors and co-founder. On his passing, our Board of Directors appointed Michael Linos, then President, to assume the additional duties of Interim Chief Executive Officer. On October 23, 2014, our Board of Directors appointed Michael Linos, then President and Interim Chief Executive Officer, to the role of President and Chief Executive Officer.

General Outlook

We expect that the need for digital broadcasting solutions will accelerate significantly over the next 2-3 years, which acceleration we anticipate will be driven by the convergence of the following two key market dynamics: (i) the market for devices is substantial and rapidly growing and (ii) digital services are increasingly critical to enterprise core business applications, are implemented to achieve a wide variety of objectives, and are rapidly proliferating. We believe that the growth of the digital services market will not be sustainable, however, without the creation of third party service providers that offer the digital broadcasting solutions required to successfully develop, operate and support digital services to a large and diverse market of devices.

Our ability to successfully generate future revenues is dependent on a number of factors, including: (i) the availability of capital to continue to develop, operate and maintain our proprietary AllDigital Cloud platform and services, (ii) the ability to commercialize our portfolio of digital broadcasting solutions to media and entertainment companies, enterprises, government agencies, and non-profits, and (iii) our ability to attract and retain key sales, business and product development, and other personnel as our business and offerings continue to mature. We may encounter setbacks related to these activities.

Client and Product Development Update

We remain focused on providing video-on-demand ("VoD"), live streaming, third party data integration (such as news, weather, sports) and high-speed notifications with an emphasis on TV apps, mobile and syndication points via web browsers to the desktop. Our ultimate goal is to provide ultra-low latency solutions ("Ultra Low Latency Live") that will accelerate the rapid globalization of media content with an emphasis on the creation, management and monetization of TV apps and virtual "channels" of VoD and live media content.

To power our next generation solutions, we continue to make progress in the development of our Ultra-Low Latency Live streaming server platform as well as the next generation of our AllDigital Cloud digital broadcasting platform ("AD Cloud v2"). As we get closer to the formal launch of AD Cloud v2, we anticipate an increase in the use of partner resources such as Akamai CDN Delivery and Amazon Web Services to power and support its digital broadcasting content management system and application frameworks. We anticipate an improved customer experience, greater scalability, and more favorable cost structure from AD Cloud v2 due to its micro services architecture.

During the three months ended September 30, 2014, we successfully completed and delivered a significant VoD paid proof of concept with a content delivery partner with whom we are currently actively discussing new sales opportunities. During the three months ended September 30, 2014, we participated in the first phase of development of a streaming media platform with a large, multi-national provider of innovative entertainment and connectively solutions. We completed the first phase of development with this partner in September 2014 and have entered into a second stage of development that we anticipate completing during the fourth quarter of 2014. Collectively, we have realized $406,000 in new revenue from these two partners during the third and fourth quarters of 2014. The combination of these and other new customer commitments represents over $1,000,000 in additional client revenue that we anticipate recognizing during the remainder of 2014 and into the first quarter of 2015.

In October 2014, we entered into an agreement to develop next generation software for a large, telecommunications provider. In October 2014 we also announced the purchase of substantially all of the assets from Brevity Ventures, Inc., including patented technology that allows for the concurrent transport and transcoding of large digital media files, which we have branded AllDigital Brevity. We believe that AllDigital Brevity and the next generation of AllDigital Cloud, including Ultra Low Latency Live, collectively and each on a standalone basis, may position our company to accelerate the growth of its recurring customer base under an optimized cost structure.

Our sales pipeline continues to improve as global brands engage companies like ours to distribute and monetize their media content. There are emerging opportunities to either acquire the rights to digitally distribute media content, or share in the upside of digital media globalization through revenue sharing arrangements. We believe that the rapid growth of the over-the-top (OTT) market in terms of both the number of installed devices (e.g., Amazon FireTV, AppleTV, Roku, etc.) and global consumption of digital media, and the introduction of devices like Apple’s iMac with Retina 5K display and Samsung’s 4K Ultra HD TV that are designed to serve high resolution content, will represent a significant growth opportunity for us as we believe that AllDigital Cloud, Ultra Low Latency Live, and AllDigital Brevity uniquely position us to take advantage of the increasing demand for lower latency broadcasts and more efficient and reliable digital workflows.

Results of Operations – Three Months Ended September 30, 2014 and 2013

The following discussions are based on the consolidated balance sheets as September 30, 2014 (unaudited) and December 31, 2013 and statements of operations for the three months ended September 30, 2014 and 2013 (unaudited) and notes thereto.

The tables presented below, which compare AllDigital's results of operations from one period to another, present the results for each period and the change in those results from one period to another in both dollars and percentage change. The columns present the following:

The first two data columns in each table show the dollar results for each period presented.

The columns entitled "Dollar variance" and "% variance" show the change in results, both in dollars and percentages. These two columns show favorable changes as positive and unfavorable changes as negative. For example, when net sales increase from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative in both columns. Where percentages would not be meaningful, an asterisk is shown.

Three Months Ended September 30, 2014 (Unaudited) Compared to

Three Months Ended September 30, 2013 (Unaudited)

	For the three months ended September 30,		**Dollar variance favorable**	**% variance favorable**
	2014	2013	(unfavorable)	(unfavorable)
Net sales	$949,866	$959,882	$ (10,016)	(1.0)%
Cost of sales	595,133	680,105	84,972	12.5
Gross profit	354,733	279,777	74,956	26.8
Operating expenses				
Selling, marketing and advertising	146,942	151,961	5,019	3.3
General and administrative	441,736	405,041	(36,695)	(9.0)
Total operating expenses	588,678	557,002	(31,676)	(5.6)
Loss from operations	(233,945)	(277,226)	43,280	15.6
Other income (expense)				
Interest income	71	129	(58)	(45.0)

Interest expense	(152)	—	(152)	*
Other expense	—	—	—	*
Total other income (expense)	(81)	129	(210)	(162.8)
Loss before provision for income taxes	(234,026)	(277,097)	43,070	15.5
Provision for income taxes	(1,600)	(800)	(800)	(100.0)
Net loss	$(235,626)	$(277,897)	$ 42,270	15.2 %

Net Sales. Net sales decreased $10,016, or 1% in the third quarter of 2014 compared to the third quarter of 2013 due to net declines in monthly recurring and nonrecurring revenue of $98,026 and $63,907, respectively, offset by an $151,917 net increase in recognized deferred revenue. The net decline in recurring revenue resulted from a decrease in recurring monthly maintenance and support contracts with new and existing customers. The net decline in nonrecurring revenue resulted from a significant business interruption that we experienced during late 2013 and early 2014, in part, due to the turnover of numerous employees including project managers, developers, and certain executives, inhibiting our ability to focus on new sales opportunities. Deferred revenue declined in the absence of new development projects as the Company focused its development resources on completing longer-term projects that were already under contract. We started recovering from the business interruption by late second quarter 2014 and are re-building our sales pipeline and executing on new development projects that will contribute to the Company's growth for the remainder of this year and into 2015.

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Cost of Sales. Cost of sales decreased by $84,972, or 12%, in the third quarter of 2014 compared to the third quarter of 2013. The net decrease resulted from decreases in payroll and outside services of $68,677 and $48,257, respectively, and an $31,962 increase in data center related costs, including $16,842 in operating lease expense for related data center equipment (principally related to AllDigital Cloud hosting capacity). Payroll and outside services decreased on the interim decline in sales activity as we recovered from the business interruption and better utilized our existing development resources by implementing processes and industry best practices that promote more efficient and cost effective development, higher customer satisfaction, the potential for more new business, and the ability to recognize project revenue faster as evidenced during the third quarter ending September 30, 2014. In order to continue to operate our digital broadcasting platform as well as satisfy existing client contracts and commitments, we incurred extraordinary expenses in the form of recruitment fees, third party consulting fees, credits due to customers and increased payroll expense, all of which we believe will not continue in the future.

Gross Profit. We achieved a gross profit of $354,733 in the third quarter of 2014, an increase of $74,956, or 27%, compared to a gross profit of $279,777 in the third quarter of 2013. The increase in gross profit resulted from an $84,972 decrease in cost of sales offset by a $10,016 decrease in sales.

Selling, Marketing and Advertising Expenses. Selling, marketing and advertising expenses decreased by $5,019, or 3%, in the third quarter of 2014 compared to the third quarter of 2013. The net decrease resulted from a decrease of $25,427 in salary and payroll related expenses, an increase of $34,982 in outside services for outsourced marketing and advertising support, a decrease of $10,253 in advertising expense, and a decrease of $4,321 in related travel expense. We expect our selling, marketing and advertising expenses to increase in the fourth quarter and into 2015 with the addition of new sales resources and the development of marketing programs to promote and enhance our ability to sell AllDigital Brevity and AllDigital services that are currently available or under development.

General and Administrative Expenses. General and Administrative expenses increased by $36,695, or 9%, in the third quarter of 2014 compared to the third quarter of 2013. The increase resulted from $48,832 in research and development expense related to our development of AD Cloud v2 and Ultra Low Latency Live, a $8,245 increase in payroll expense, and an $2,628 increase in insurance expense offset by decreases in outside services, travel, and other general administrative expenses of $10,216, $8,385, and $4,409, respectively. We anticipate continued increases in research and development expense in the fourth quarter 2014 and into 2015 as we bring new services to market.

Other Income (Expense). Other Income (Expense) decreased by $210, or 163%, in the third quarter of 2014 compared to the third quarter of 2013. The net decrease resulted from a decrease in interest income ($58) on a lower cash balance on deposit, and an increase in interest expense ($152) incurred for the recent capital lease financing of computer and other equipment.

Results of Operations – Nine Months Ended September 30, 2014 and 2013

The following discussions are based on the consolidated balance sheets as September 30, 2014 (unaudited) and December 31, 2013 and statements of operations for the nine months ended September 30, 2014 and 2013 (unaudited) and notes thereto.

The tables presented below, which compare AllDigital's results of operations from one period to another, present the results for each period and the change in those results from one period to another in both dollars and percentage change. The columns present the following:

The first two data columns in each table show the dollar results for each period presented.

The columns entitled "Dollar variance" and "% variance" show the change in results, both in dollars and percentages. These two columns show favorable changes as positive and unfavorable changes as negative. For example, when net sales increase from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative in both columns. Where percentages would not be meaningful, an asterisk is shown.

Nine Months Ended September 30, 2014 (Unaudited) Compared to

Nine Months Ended September 30, 2013 (Unaudited)

	For the Nine months ended September 30,		**Dollar variance favorable**	**% variance favorable**
	2014	2013	(unfavorable)	(unfavorable)
Net sales	$2,762,535	$2,998,176	$ (235,641)	(7.9)%
Cost of sales	2,470,556	1,956,916	(513,640)	(26.2)
Gross profit	291,979	1,041,260	(749,281)	(72.0)
Operating expenses				
Selling, marketing and advertising	561,236	368,401	(192,835)	(52.3)
General and administrative	1,322,441	1,245,631	(76,810)	(6.2)
Total operating expenses	1,883,677	1,614,032	(269,646)	(16.7)
Loss from operations	(1,591,698)	(572,772)	(1,018,927)	(177.9)
Other income (expense)				
Interest income	652	413	239	57.9

Interest expense	(670)	—	(670)	*
Other income (expense)	25,170	66,653	(41,483)	(62.2)
Total other income (expense)	25,152	67,066	(41,914)	(62.5)
Loss before provision for income taxes	(1,566,546)	(505,706)	(1,060,841)	(209.8)
Provision for income taxes	(3,200)	(1,600)	(1600)	(100.0)
Net loss	$(1,569,746)	$(507,306)	$ (1,062,441)	(209.4)%

Net Sales. Net sales decreased by $235,641, or 8% in the first nine months of 2014 compared to the first nine months of 2013 due to net declines in monthly recurring and nonrecurring revenue of $325,608 and $141,870, respectively, offset by an $231,837 net increase in recognized deferred revenue. The net decline in recurring revenue resulted from a decrease in recurring monthly maintenance and support contracts with new and existing customers. Nonrecurring revenue declined due to a significant business interruption that we experienced during late 2013 and early 2014, in part, due to the turnover of numerous employees including project managers, developers, and certain executives, inhibiting our ability to focus on new sales opportunities. Deferred revenue declined in the absence of new development projects as the Company focused its development resources on completing longer-term projects that were already under contract. We started recovering from the business interruption by late second quarter 2014 and are re-building our sales pipeline and executing on new development projects.

Cost of Sales. Cost of sales increased by $513,640, or 26%, in the first nine months of 2014 compared to the first nine months of 2013. The increase in cost of sales was primarily due to the following increases: $215,974 in third party contracted resources (for engineering and software development resources for projects), $126,381 in salaries and related expenses, $149,835 in data center and facilities operating cost (principally related to AllDigital Cloud hosting capacity) which included $50,992 in operating lease expense for related data center equipment, and $21,450 in travel. The cost of engineering and development human resources in the first half of both 2014 and 2013, including both our employees and third party contracted resources, was approximately 86% and 89%, of our cost of sales in each respective period. The significant increase in cost of sales was due to a significant business interruption we experienced during late 2013 and early 2014, in part, due to the turnover of numerous employees including project managers, developers, and certain executives.

Gross Profit. We achieved a gross profit of $291,979 in the first nine months of 2014, a decrease of $749,281, or 72%, compared to a gross profit of $1,041,260 in the first nine months of 2013. The significant decrease in gross profit resulted from a $513,640 increase in cost of sales and a $235,641 decrease in net sales.

Selling, Marketing and Advertising Expenses. Selling, marketing and advertising expenses increased $192,835, or 52%, in the first nine months of 2014 compared to the first nine months of 2013. The increase resulted from increases in payroll ($94,445), outside services ($66,846), advertising ($19,745), and travel ($11,799), with the entire increase being accounted for in the first six months of 2014 when the Company was still recovering from a business interruption due to the turnover of numerous employees including project managers, developers, and certain executives.

General and Administrative Expenses. General and Administrative expenses increased by $76,810 or 6% in the first nine months of 2014 compared to the first nine months of 2013. The net increase resulted from $110,207 in professional fees, $48,825 in research and development expense related to our development of AD Cloud V2 and Ultra Low Latency Live, an $7,784 increase in insurance expense, a decrease of $86,111 in payroll and related expenses, and a net decrease of $3,895 in travel and other general and administrative expenses.

Other Income. The net amount of other income decreased by $41,914, or 62%, in the first nine months of 2014 as compared to the first nine months of 2013. Included in the 2014 total was a write-off of $21,595 of cost for software that was determined to be without value offset by a $46,765 favorable financial settlement with a former supplier. In 2013, the comparative other income amount resulted from a settlement with a former customer. Contributors to other income in the first nine months of 2014 include $652 in interest income earned from cash on deposit, and $670 in interest expense for capital lease financing of computer and other equipment.

Liquidity and Capital Resources

During the nine months ended September 30, 2014, we funded our operations primarily from cash provided by operations and proceeds from the sale of shares of our common stock for cash. Working capital as of September 30, 2014 and December 31, 2013 was $(86,252) and $918,330, respectively. We had accumulated losses of $4,543,229 and $2,973,553 at September 30, 2014 and December 31, 2013, respectively. Our available capital resources at September 30, 2014, consisted primarily of $139,308 in cash and cash equivalents. As of September 30, 2014, we had current assets of $617,726, including $139,308 in cash and cash equivalents.

In October and November 2014, we raised $750,000 through the sale of an aggregate of $750,000 in principal of our 5% Senior Secured Convertible Notes, or Notes. The Notes are convertible at a conversion price of $0.15 per share into an aggregate of up to 5,000,000 shares of our common stock. The Notes are secured by all of our assets. We used $400,000 of the proceeds from the sale of the Notes to acquire Brevity Ventures, Inc. and anticipate using the remaining proceeds for working capital purposes, including making strategic investments. We expect that our future available capital resources will consist primarily of cash on hand, cash generated from our business, if any, and future debt and/or equity financings, if any.

Cash decreased $1,161,626 from $1,300,932 at December 31, 2013 to $139,306 at September 30, 2014, due primarily to the net cash used in operating activities of $1,526,518 during the first nine months of 2014. A net loss of $1,569,746 was the largest component of net cash used in operating activities for the period. This loss was offset by non-cash expenses during the period, including $54,196 for depreciation and amortization, $85,645 for stock based compensation, $87,999 in common stock issued to service providers, $21,595 in losses on disposal of property and equipment, $162,864 in accounts receivable, and $86,286 in accounts payable and accrued expenses. Net cash used in operating activities also reflected a decrease of $125,822 in prepaid expenses and other current assets, and a decrease of $329,535 in deferred revenue.

Cash used in investing activities in the first nine months of 2014 was $35,935, which included purchased acquisitions of property and equipment ($32,172), and payments for an intangible - domain name ($3,763). Cash of $400,827 was provided by financing activities in the first nine months of 2014, comprised of $412,500 raised in May 2014 in connection with the sale of shares of our common stock to two accredited investors, and $11,673 of cash used for capital lease financing.

We monitor our financial resources on an ongoing basis and may adjust planned business activities and operations as needed to ensure that we have sufficient operating capital. We evaluate our capital needs, and the availability and cost of capital on an ongoing basis and expect to seek capital when and on such terms as deemed appropriate based upon an assessment of then-current liquidity, capital needs, and the availability and cost of capital. Given our early stage of operations, we do not expect that bank or other institutional debt financing will be available. We expect that any capital we raise will be through the issuance of equity or equity-linked securities (such as warrants, convertible notes or similar securities). We believe that we will be able to obtain financing when and as needed, but may be required to pay a high price for capital. We do not have any commitments to provide capital.

We believe that current and future available capital resources, which include the proceeds from the sale of our Notes in October and November 2014 and revenues generated from operations will be adequate to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months. If, however, our capital requirements or cash flow vary materially from our current projections, if unforeseen circumstances occur, or if we require a significant amount of cash to fund future acquisitions, we may require additional financing. Our failure to raise capital, if needed, could restrict our growth, or hinder our ability to compete.

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We are seeking to accelerate our revenue growth and may participate in strategic joint ventures or acquisitions in the next twelve months. As a result we may need additional liquidity and capital resources. No assurances can be given that we will be successful in obtaining additional financing in the future. Any future financing that we may obtain may cause significant dilution to existing stockholders. Any debt financing or other financing of securities senior to our common stock that we are able to obtain will likely include financial and other covenants that will restrict our flexibility. At a minimum, we expect these covenants to include restrictions on our ability to pay dividends on our common stock. Any failure to comply with these covenants would have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2014 that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Inherent Limitations on the Effectiveness of Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 16, 2014, we filed a suit in the Superior Court of the State of California in Orange County naming 3 of our prior employees as defendants (Case Number: 30-2014-00723384-CU-IP-CJC).

On September 5, 2014, following the passing of Paul Summers, we filed a Request for Dismissal without Prejudice of this suit in the Superior Court of the State of California in Orange County.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, and all of the other information set forth in this Report before deciding to invest in shares of our common stock. In addition to historical information, the information in this Report contains forward-looking statements about our future business and performance. Our actual operating results and financial performance may be different from what we expect as of the date of this Report. The risks described in this Report represent the risks that management has identified and determined to be material to our company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also materially harm our business operations and financial condition.

We have a limited operating history and cannot ensure the long-term successful operation of our business or the execution of our business plan.

We have a limited operating history, and our digital broadcasting solutions are an evolving business offering. As a result, investors have no meaningful track record by which to evaluate our future performance. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in new and rapidly evolving markets. We may be unable to accomplish any of the following, which would materially impact our ability to implement our business plan:

- establishing and maintaining broad market acceptance of our products, technology, services, and platform, and converting that acceptance into direct and indirect sources of revenue;

establishing and maintaining adoption of our products, technology, services, and platform on a wide variety of devices and device platforms;

timely and successfully developing new products, technology, services, service and platform features, and increasing the functionality and features of our existing products, services, platform and technology;

developing products, technology, services, and platform that result in a high degree of customer satisfaction and a high level of end-customer usage;

successfully responding to competition, including competition from emerging technologies and solutions;

developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our products, technology, services, and platform; and

identifying, attracting and retaining talented technical services, engineering, and creative services staff at reasonable market compensation rates in the markets in which we employ.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully accomplish these tasks, our business will be harmed.

We will likely need to raise additional capital in order to continue and grow our operations, and we may be unable to obtain additional capital on reasonable terms, or at all.

We generated negative cash flows from operations during the year ended December 31, 2013 and the nine months ended September 30, 2014, and have limited cash. If we continue to use cash in our operations, we will need to raise additional capital. Given our early stage of operations, we do not expect that bank or other institutional debt financing will be available. We expect that any capital we raise will be through the issuance of equity and equity-linked securities, including common stock, preferred stock, warrants or and convertible debt. We have no commitments from any parties to provide capital and may not be able to raise capital on reasonable terms, or at all. Factors affecting the availability and price of capital may include the following:

- the availability and cost of capital generally;
- our financial results;
- the experience and reputation of our management team;
- market interest, or lack of interest, in our industry and business plan;
- condition of the global markets and specifically the U.S. economy;
- the trading volume of, and volatility in, the market for our common stock;
- our ongoing success, or failure, in executing our business plan;
- the amount of our capital needs; and
- the amount of debt, options, warrants, and convertible securities we have outstanding.

We may be unable to meet our current or future obligations or to adequately exploit existing or future opportunities if we cannot raise sufficient capital. If we are unable to obtain capital for an extended period of time, we may be forced to discontinue operations.

We are in the early stages of the full production version of our AllDigital Cloud platform in commercial operation.

We have only recently deployed the full production version of our AllDigital Cloud platform. Accordingly, our AllDigital Cloud platform may not perform as expected and we may not be able to address some or all of the early stage production challenges that may occur. Any failure to address early production challenges would significantly harm our results of operations and financial condition.

Because of our early stage of operations and limited resources, we may not have in place various processes and protections common to more mature companies and may be more susceptible to adverse events.

We are in an early stage of operations and have limited resources. As a result, we may not have in place systems, processes and protections that many of our competitors have or that may be essential to protect against various risks. For example, we have in place only limited resources and processes addressing human resources, timekeeping, data protection, business continuity, personnel redundancy, and knowledge institutionalization concerns. As a result, we are at risk that one or more adverse events in these and other areas may materially harm our business, balance sheet, revenues, expenses or prospects.

The platform architecture and data tracking technology underlying our services is complex and may contain unknown errors in design or implementation that could result in incorrect billings to our customers.

The platform architecture and data tracking technology underlying our AllDigital Cloud platform, broadcasting network services, and cloud services software tools and back-end services is complex and includes software and code used to generate customer invoices. This software and code is either developed internally or licensed from third parties. Any of the system architecture, system administration, software or code may contain errors, or may be implemented or interpreted incorrectly, particularly when they are first introduced or when new versions or enhancements to our tools and services are released. In addition, with respect to certain usage-based billing, the data used to bill the customer for usage is an estimate, based upon complex formulas or algorithms. We or the customer may subsequently believe that such formulas or algorithms overstate or understate actual usage. In any such case, a design or application error could cause overbilling or under-billing of our customers, which may:

- adversely impact our relationship with those customers and others, possibly leading to a loss of affected and unaffected customers;
- lead to billing disputes and related legal fees, and diversion of management resources;
- increase our costs related to product development; and/or
- adversely affect our revenues and expenses, either prospectively or retrospectively, potentially requiring restatement of financial statements.

Our continued growth could be adversely affected by the loss of several key customers.

During the year ending December 31, 2013, our four largest customer relationships accounted for approximately 82% of our total revenue. During the nine months ended September 30, 2014, our three largest customer relationships accounted for approximately 64% of our total revenue. Our agreements with many of these key customers and/or partners expire in any given year unless renewed by the customer and/or partner, are terminable at any time upon short-term notice, or are otherwise generally terminable during 2014. Decisions by one or more of these key customers and/or partners to not renew, terminate or substantially reduce their use of our products, technology, services, and platform could substantially slow our revenue growth and lead to a decline in revenue. Our business plan assumes continued growth in revenue, and it is unlikely that we will become profitable without a continued increase in revenue.

We are dependent upon key personnel who may leave at any time and may be unable to attract qualified personnel in the future.

We are highly dependent upon on a small number of senior executives and other members of management to work effectively as a team, to execute our business strategy and business plan, and to manage our employees, independent contractors, consultants and vendors. Certain of our senior executives have limited public company experience. Any of our senior executives, managers and employees can terminate his or her employment relationship at any time, and the loss of the services of such individuals could have a material adverse effect on our ability to execute our business plan and otherwise have a material adverse effect on our business, financial condition and results of operations.

We may incur substantial operating and net losses due to substantial expenditures.

Since the commencement of our current operations, we have invested significant time and expense towards developing our products, technology and services in order to capitalize on current market opportunities. We intend to increase our operating expenses and capital expenditures in order to expand our market presence, and as a result, we may incur substantial operating and net losses in the foreseeable future. There can be no assurance that we will achieve or sustain profitability or positive cash flow from our operations.

Our resources may not be sufficient to manage our expected growth; failure to properly manage our potential growth would be detrimental to our business.

We may fail to adequately manage our anticipated future growth. Any growth in our operations will place a significant strain on our administrative, financial and operational resources. It will also increase demands on our management and on our operational and administrative systems, controls and other resources. Our existing personnel, systems, procedures and controls may be inadequate to support our operations in the future, such that we will be unable to successfully implement appropriate measures consistent with our growth strategy. As part of any growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing and sales staff. We may be unable to do this. To the extent we acquire or merge with other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. We may not have the experience or resources to do this. If we are unable to adequately manage future growth, our operating results may suffer.

Our future results will suffer if we do not effectively manage our expanded operations following our acquisition of substantially all of the assets of Brevity Ventures, Inc.

Our future success depends, in part, upon our ability to manage our expanded business after our acquisition of substantially all of the assets of Brevity Ventures, Inc. in October 2014. Our acquisition may pose substantial challenges for management, including challenges related to the integration, billing, collections and accounting and associated increased costs and complexities. There can be no assurances that we will realize the expected operating efficiencies, revenue enhancements or other benefits currently anticipated as a result of our acquisition.

Because our technology, products, platform, and services are complex and are deployed in and across complex environments, they may have errors or defects that could seriously harm our business.

Our technology, products, platform, and services are highly complex and are designed to operate in and across data centers, numerous large and complex networks, and other elements of the digital broadcasting workflow that we do not own or control. From time to time, we have needed to correct errors and defects in our software. In the future, there may be additional errors and defects in our software that may adversely affect our services. We may not have in place adequate quality assurance procedures to ensure that we detect errors in our software in a timely manner. If we are unable to efficiently and cost-effectively fix errors or other problems that may be identified, or if there are unidentified errors that allow persons to improperly access our services, we could experience loss of revenues and market share, damage to our reputation, increased expenses and legal actions by our customers.

We may have insufficient transmission and server capacity, which could result in interruptions in our services and loss of revenues.

Our operations are dependent in part upon transmission capacity provided by third-party telecommunications network providers. In addition, our distributed network must be sufficiently robust to handle all of our customers' web-traffic, particularly in the event of unexpected surges in high-definition video traffic. We may not be adequately prepared for unexpected increases in bandwidth demands by our customers. In addition, the bandwidth we have contracted to purchase may become unavailable for a variety of reasons, including payment disputes or network providers going out of business. Any failure of these network providers to provide the capacity we require, due to financial or other reasons, may result in a reduction in, or interruption of, service to our customers, leading to an immediate decline in revenue and possible additional decline in revenue as a result of subsequent customer losses.

We may have insufficient human resources in platform development, project management, quality control to manage large customer projects.

Our operations are dependent in part upon the availability of adequate human resources to manage and develop our Cloud Platform and specific customer development projects. We may not be adequately prepared for unexpected increases in integration service development efforts required by prospective or existing customers. Software development is a human resource intensive process in an increasingly competitive environment for talented people, a lack (or loss) of which could result in an immediate decline in revenue and possible additional decline in revenue as a result of subsequent customer losses. The loss of developers and related staff can also create delays in providing development services to our customers also potentially resulting in a loss of revenue.

We do not have sufficient capital to engage in material research and development, which may harm our long term growth.

In light of our limited capital, we have made no material investments in research and development over the past several years. This may conserve capital in the short term. In the long term, as a result of our failure to invest in research and development, our technology and product offerings may not keep pace with the market and we may lose any existing competitive advantage. Over the long term, this may harm our revenue growth and our ability to become profitable.

We may acquire businesses or assets, or enter into other business combination transactions, that may be difficult to integrate.

As part of our growth strategy we expect to enter into transactions to acquire companies or a substantial portion of their assets, or to combine our business with theirs. These acquisitions or business combinations involve numerous risks, including each of the following:

- that the combined entity will not perform as well as the separate businesses performed prior to the transaction;
- that anticipated cost savings, cross-marketing to new customers or other anticipated synergies will not be achieved;
- that management resources will be diverted towards negotiating and effecting the acquisition and then integrating the operations and personnel of the acquired business, instead of focusing on our existing business plan and operations;

that the stock and/or other consideration paid in the transaction will exceed the value of the assets or business acquired;

that the use of cash as consideration for the transaction will reduce cash that may be needed for operations below necessary levels;

that if we enter into a transaction, such transaction may delay our ability to raise needed capital on a stand-alone basis while the transaction is underway and not yet consummated, and/or impair the combined company’s ability to raise capital in the event the transaction is consummated, and/or accelerate our need for capital as a combined company in the event the transaction is consummated, and the terms of any such capital raise may be onerous, if we are even successful at being able to raise needed capital;

that we may be assuming potential unknown liabilities of the acquired business; and

that if we do not consummate such a transaction, we will have expended substantial costs and resources without achieving the anticipated benefit.

Acquisitions or business combinations (or attempted transactions) could have an adverse, rather than a positive, effect on our business, operations and financial results for the reasons set forth above or otherwise.

The markets in which we operate are rapidly emerging, and we may be unable to compete successfully against existing or future competitors to our business.

The markets in which we operate are becoming increasingly competitive. Our current competitors generally include operators within the digital media stack, who offer subcomponents of our digital broadcasting solutions (e.g., CDN providers, CMS companies, hosting, utility computing companies), or integrators and vertical solution providers who develop single implementations of content or digital media distribution, and related digital services, to a target device platform. These competitors, including future new competitors that may emerge, may be able to develop a comparable or superior platform, and/or technology stack, and/or series of services that provide a similar or more robust set of features and functionality than the technology, products and services we offer. If this occurs, we may be unable to grow as necessary to make our business profitable.

Regardless of whether we have superior products, many of these current and potential future competitors have a longer operating history in their current respective business areas and greater market presence, brand recognition, engineering and marketing capabilities, and financial, technological and personnel resources than we do. Existing and potential competitors with an extended operating history, even if not directly related to our business, have an inherent marketing advantage because of the reluctance of many potential customers to entrust key operations to a company that may be perceived as unproven. In addition, our existing and potential future competitors may be able to use their extensive resources:

to develop and deploy new products and services more quickly and effectively than we can;

to develop, improve and expand their platforms and related infrastructures more quickly than we can;

to reduce costs, particularly transport, storage and processing costs, because of discounts associated with large volume purchases;

- to offer less expensive products, technology, platform, and services as a result of a lower cost structure, greater capital reserves or otherwise;
- to adapt more swiftly and completely to new or emerging technologies and changes in customer requirements;
- to offer bundles of related services that we are unable to offer;
- to attract and retain qualified staff more effectively than we can;
- to take advantage of acquisition and other opportunities more readily; and
- to devote greater resources to the marketing and sales of their products, technology, platform, and services.

If we are unable to compete effectively in our various markets, or if competitive pressures place downward pressure on the prices at which we offer our products and services, our business, financial condition and results of operations may suffer.

Our networks handle personal data, and we may be subject to liability for any loss of such data.

As part of our product offering, we facilitate the billing by our customers of their end customers, including end customers that may purchase products using credit cards or otherwise provide personal financial and other information over our network. Unauthorized access to our platform and underlying infrastructure, including certain servers for example, may jeopardize the security of the personal information stored in our computer systems and our customers' computer systems. If this occurs, we may be liable to our customers, and we may lose customers or future customers, as a result of the reputational harm associated with such a breach.

Our business operations are susceptible to interruptions caused by events beyond our control.

Our business operations are susceptible to interruptions caused by events beyond our control. We are vulnerable to the following potential problems, among others:

- Our platform, technology, products, and services and underlying infrastructure, or that of our key suppliers, may be damaged or destroyed by events beyond our control, such as fires, earthquakes, floods, power outages or telecommunications failures. Our operations are particularly susceptible to interruption from any of the foregoing because many of our servers and much of our infrastructure is located in Southern California, which is prone to the occurrence of the foregoing events.

We and our customers and/or partners may experience interruptions in service as a result of the accidental or malicious actions of Internet users, hackers or current or former employees.

We may face liability for transmitting viruses to third parties that damage or impair their access to computer networks, programs, data or information. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to our customers.

Failure of our systems or those of our suppliers may disrupt service to our customers (and from our customers to their customers), which could materially impact our operations (and the operations of our customers), adversely affect our relationships with our customers and lead to lawsuits and contingent liability.

The occurrence of any of the foregoing could result in claims for consequential and other damages, significant repair and recovery expenses and extensive customer losses and otherwise have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Intellectual Property

If the protection of our intellectual property is inadequate, our competitors may gain access to our technology, and our business may suffer.

We depend on our ability to develop and maintain certain proprietary aspects of our products and services. To protect these proprietary products and services, we rely primarily on a combination of contractual provisions, confidentiality procedures, trade secrets and common law copyright and trademark principles. Adequate protection of our intellectual property is subject to the following risks:

We have not applied for a copyright registration or patents with respect to our proprietary rights, and, as a result, we may have limited legal recourse against others who use our technology or similar technology.

Our claims of proprietary ownership (and related common law copyright assertions) may be challenged or otherwise fail to provide us with the ability to prevent others from copying our technology.

Our existing trademarks or any future trademarks may be canceled or otherwise fail to provide meaningful protection.

Counterparties to nondisclosure agreements disclose or use our intellectual property in breach of governing agreements, and our ability to prevent or obtain damages for such breach may be limited by our financial situation, legal restrictions or other issues.

If we use open source technology, with or without our knowledge, we may become subject to “copyleft” agreements requiring us to license proprietary technology to third parties.

Despite our efforts to protect our proprietary products, technology, platform, and services, unauthorized parties may attempt to copy, obtain or use certain aspects of it for their own benefit or for purposes of damaging our business or reputation. Policing unauthorized use of our products, technology, platform, and services is difficult, and although we are unable to determine the extent to which piracy of our products, technology, platform, and services exists, we expect software piracy to be an ongoing problem.

Third party claims that we infringe upon their intellectual property rights could be costly to defend and/or settle.

Litigation regarding intellectual property rights is common in the Internet and software industries. We expect that Internet technologies and software products and services may be increasingly subject to third-party infringement claims as the number of competitors in our industry grows and the functionality of products, technology, platform, and services in different industry segments overlaps. We may from time to time encounter disputes over rights and obligations concerning intellectual property that we developed ourselves, use or license from third parties, including open source software. Third parties may bring claims of infringement against us, which may be with or without merit. We could be required, as a result of an intellectual property dispute, to do one or more of the following:

cease selling, incorporating or using services, technology, platform or products that rely upon the disputed intellectual property;

obtain from the holder of the intellectual property a license to sell or use the disputed intellectual property, which license may not be available on terms acceptable to us or at all;

redesign services, technology, products, platform or portions of services, technology or products, that incorporate disputed intellectual property;

pay increased license fees for certain implementations of open source or other third party software licenses which were not anticipated under an existing license or agreement; and

pay monetary damages to the third party adjudged to be the rightful holder of the intellectual property right.

The occurrence of any of these events could result in substantial costs and diversion of resources or could severely limit the products and/or services we offer, which may seriously harm our business, operating results and financial condition.

In addition, we have agreed, and may agree in the future, to indemnify certain of our customers against claims that our products, technology or services infringe upon the intellectual property rights of others. We could incur substantial costs in defending our customers against infringement claims and ultimately be required to pay substantial monetary damages attributable to the indemnification of our customers in the event of a successful claim of infringement against us or them.

We may be subject to legal liability for providing third-party content.

We have certain arrangements to offer third-party content via certain of our customers' websites. We may be subject to claims concerning this content by virtue of our involvement in marketing, branding, broadcasting or providing access to it, even if we do not ourselves directly host, operate or provide access to these products, services, content or advertising. While our agreements with these parties most often provide that we will be indemnified against such liabilities, such indemnification may not be adequate or available. Investigating and defending any of these types of claims can be expensive, even if the claims do not result in liability. While to date we have not been subject to material claims, if any potential claims do result in liability, we could be required to pay damages or other penalties, or result in other adverse impacts to our business, which could harm our operating results and financial condition.

Risks Related to Our Industry

Certain of our service delivery and content handling services are subject to industry regulations, standards, certifications and/or approvals.

The commercialization of certain of the service delivery and content handling services we provide at times require or are made more costly due to industry acceptance and regulatory processes, such as ISO certification and strict content security handling standards, including rights management and other requirements mandated by media and entertainment studios. If we are unable to obtain or retain these or other formal and informal studio approvals for particular digital service implementations, certifications and standards compliance in a timely manner, or at all, our operating results could be adversely affected.

General global market and economic conditions may have an adverse impact on our operating performance and results of operations.

Our business has been and could continue to be affected by general global economic and market conditions. Weakness in the United States and worldwide economy has had and could continue to have a negative effect on our operating results, including a decrease in revenue and operating cash flow. To the extent our customers are unable to profitably monetize the digital services and content we deliver on their behalf, they may reduce or eliminate their purchase of our products and services. Such reductions in traffic would lead to a reduction in our revenues. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, slowdown in commerce over the Internet and corresponding decrease in traffic delivered over our network and failures by our customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or revenues. Flat or worsening economic conditions may harm our operating results and financial condition.

The market for digital broadcasting solutions may not grow at a pace that we anticipated or at levels that allow us to continue to grow.

The market for digital broadcasting solutions is relatively new and evolving. As a result, we cannot be certain that a viable market for our products and services will be sustainable. Factors that may inhibit the growth of this market include:

Our customers may limit their distribution of digital media and related digital services to devices because of issues related to protection of copyrights, media and entertainment company studio approvals related to content protection, royalty payments to artists and publishers, illegal copying and distribution of data and other intellectual property rights issues.

Congestion of data networks, or consumer reluctance to purchase high-speed Internet connectivity for their device, may limit the growth of the distribution of content and related digital services to devices.

Consumers may determine not to view or access digital services on their devices because of, among other factors, poor reception of the broadcast or other delivery of the services, or the creation or expansion of competing technologies, that provide a similar service at lower cost or with better features.

New laws and regulations may negatively affect consumers’ and businesses’ use of the Internet or devices, thereby reducing demand.

If the market for digital broadcasting solutions does not continue to grow, or grows more slowly than expected, our business, results of operations and financial condition will be significantly harmed.

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Risks Related to Our Capital Stock and Capitalization

We cannot predict the extent to which an active public trading market for our common stock will develop or be sustained. If a public trading market does not develop or cannot be sustained, you may be unable to liquidate your investment in AllDigital.

We cannot predict the extent to which an active public market for our common stock will develop or be sustained due to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors, and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares of common stock until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a public trading market for our common stock will be sustained. If such a market cannot be sustained, you may be unable to liquidate your investment in AllDigital.

In addition, the market price for our common stock may be particularly volatile given our status as a relatively small company with a small and thinly-traded “public float” that could lead to wide fluctuations in our share price. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

Our common stock may be subject to significant price volatility which may have an adverse effect on your ability to liquidate your investment in our common stock.

The market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will be more volatile than a seasoned issuer for the indefinite future. The potential volatility in our share price is attributable to a number of factors. First, our common shares may be sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer that could better absorb those sales without adverse impact on its share price. Secondly, an investment in us is a speculative or “risky” investment due to our lack of meaningful revenues or any profits to date and uncertainty of future market acceptance for current and potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer.

We are subject to various regulatory requirements, and may be adversely affected by inquiries, investigations and allegations that we have not complied with governing rules and laws.

In light of our status as a public company and the early stage of our business, we are subject to a variety of laws and regulatory requirements in addition to those applicable to all businesses generally. For example, we are subject to the reporting requirements applicable to United States reporting issuers, such as the Sarbanes-Oxley Act of 2002, and certain state and provincial securities laws. In addition, because we are in an early stage of development and intend on issuing securities to raise capital and use acquisitions for growth, our actions will be governed by state and federal securities laws and laws governing the issuance of securities, which are complex. In connection with such laws, we may be subject to periodic audits, inquiries and investigations. Any such audits, inquiries and investigations may divert considerable financial and human resources and adversely affect the execution of our business plan.

Through such audits, inquiries and investigations, a regulator or we may determine that we are out of compliance with one or more governing rules or laws. Remedying such non-compliance diverts additional financial and human resources. In addition, in the future, we may be subject to a formal charge or determination that we have materially violated a governing law, rule or regulation. We may also be subject to lawsuits as a result of alleged violation of the securities laws or governing corporate laws. Any charge or allegation, and particularly any determination, that we had materially violated a governing law would harm our ability to enter into business relationships, recruit qualified officers and employees and raise capital.

The market price of our common stock may be harmed by our need to raise capital.

We need to raise additional capital in the near future and expect to raise such capital through the issuance of equity and equity-linked securities including common stock, preferred stock, warrants and convertible debt. Because securities in private placements and other transactions by a company are often sold at a discount to market prices, this need to raise additional capital may harm the market price of our common stock, to the extent that a market develops. In addition, the re-sale of securities issued in such capital-raising transactions, whether under Rule 144 or otherwise, may harm the market price of our common stock.

Our ability to issue preferred stock and common stock may significantly dilute ownership and voting power, negatively affect the price of our common stock and inhibit hostile takeovers.

Under our Articles of Incorporation, we are authorized to issue up to 10,000,000 shares of preferred stock and 90,000,000 shares of common stock without seeking stockholder approval. Any issuance of preferred stock or common stock would dilute the ownership and voting power of existing holders of our common stock and may have a negative effect on the price of our common stock. The issuance of preferred stock without stockholder approval may also be used by management to stop or delay a change of control, or might discourage third parties from seeking a change of control of our company, even though some stockholders or potential investors may view possible takeover attempts as potentially beneficial to our stockholders.

Our common stock is a “low-priced stock” and subject to regulations that limits or restricts the potential market for our stock.

Shares of our common stock are “low-priced” or “penny stock,” resulting in increased risks to our investors and certain requirements being imposed on some brokers who execute transactions in our common stock. In general, a low-priced stock is an equity security that is:

priced under five dollars;

not traded on a national stock exchange, such as NASDAQ or the NYSE;

issued by a company that has less than $5 million in net tangible assets (if it has been in business less than three years) or has less than $2 million in net tangible assets (if it has been in business for at least three years); and

issued by a company that has average revenues of less than $6 million for the past three years.

We believe that our common stock is presently a “penny stock.” At any time the common stock qualifies as a penny stock, the following requirements, among others, will generally apply:

Certain broker-dealers who recommend penny stock to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser’s written agreement to a transaction prior to sale.

Prior to executing any transaction involving a penny stock, certain broker-dealers must deliver to certain purchasers a disclosure schedule explaining the risks involved in owning penny stock, the broker-dealer’s duties to the customer, a toll-free telephone number for inquiries about the broker-dealer’s disciplinary history and the customer’s rights and remedies in case of fraud or abuse in the sale.

In connection with the execution of any transaction involving a penny stock, certain broker-dealers must deliver to certain purchasers the following:

bid and offer price quotes and volume information;

the broker-dealer’s compensation for the trade;

the compensation received by certain salespersons for the trade;

monthly account statements; and

a written statement of the customer’s financial situation and investment goals.

We have never paid, and do not intend to pay in the future, dividends on our common stock.

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. It is unlikely that investors will derive any current income from ownership of our stock. This means that the potential for economic gain from ownership of our stock depends on appreciation of our stock price and will only be realized by a sale of the stock at a price higher than the purchase price.

We do not have significant tangible assets that could be sold upon liquidation.

We have nominal tangible assets, and as of October 2014, we pledged all of our assets as collateral to secure our obligations under $750,000 in principal of our 5% Senior Secured Convertible Notes. As a result, if we become insolvent, there will be no tangible assets to liquidate and no corresponding proceeds to distribute to our stockholders.

If we become insolvent or otherwise must dissolve or liquidate our assets, our stockholders will likely not receive any cash proceeds on account of their shares.

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

In the third quarter of 2014 we issued an aggregate of 376,111 shares of our common stock to three accredited investors in consideration of services provided or to be provided.

The offer and sale of the securities described above were effected in reliance on Section 4(2) of the Securities Act and Rule 506 promulgated thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Index to Exhibits

Exhibit Number	**Description**

10.1	Amended and Restated Employment Agreement, dated September 8, 2014, by and between the Registrant and Michael Linos.
10.2	Employment Agreement, dated September 8, 2014, by and between the Registrant and Brad Eisenstein.
31.1	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document (*)
101.SCH	XBRL Taxonomy Extension Schema (*)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (*)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (*)
101.LAB	XBRL Taxonomy Extension Label Linkbase (*)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (*)

(*) Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ALLDIGITAL HOLDINGS, INC.
November 14, 2014	By: */s/ Michael Linos*
Date	Michael Linos,
	Chief Executive Officer
November 14, 2014	*/s/ Brad Eisenstein*
Date	Brad Eisenstein,
	Chief Financial Officer and Chief Operating Officer

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