

MOBIVITY HOLDINGS CORP.  
Form 10-Q  
May 15, 2014

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 000-53851

Mobivity Holdings Corp.  
(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

26-3439095  
(I.R.S. Employer  
Identification No.)

58 W. Buffalo St. #200  
Chandler, AZ 85225  
(Address of Principal Executive Offices & Zip Code)

(866) 622-4261  
(Registrant's Telephone Number)

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

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

Indicate by check mark 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. (Check one):

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

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

As of May 15, 2014, the registrant had 22,237,762 shares of common stock issued and outstanding.

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Explanatory Note

On November 12, 2013, Mobivity Holdings Corp. (the "Company") filed an amendment to its articles of incorporation on file with the Nevada Secretary of State for purposes of (i) effecting a reverse split of the issued and outstanding shares of its common stock at a ratio of one share for every six shares outstanding prior to November 12, 2013 and (ii) decreasing the authorized shares of its common stock to 50,000,000 shares. The reverse stock split was effective as of November 12, 2013. The reverse stock split effected a proportional decrease in the number of shares of common stock issuable upon the exercise of the Company's stock options and warrants outstanding immediately prior to the effective date of the reverse stock split, with a proportional increase in the exercise price. No fractional shares were issued as a result of the reverse stock split. In lieu of issuing fractional shares, the Company rounded all fractional interests resulting from the split up to the nearest whole number. All historical share information contained in this Quarterly Report on Form 10-Q gives effect to the reverse stock split.

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## Part I - Financial Information

## Item 1. Financial Statements

Mobivity Holdings Corp.  
Consolidated Balance Sheets

|  | March 31,<br>2014<br>(Unaudited) | December<br>31, 2013<br>(Audited) |
|--|----------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                  |                                   |
| Current assets   |                                  |                                   |
| Cash   | \$3,984,032                      | \$2,572,685                       |
| Accounts receivable, net of allowance for doubtful accounts of \$108,067 and \$65,975, respectively                    | 441,698                          | 280,667                           |
| Other current assets   | 128,895                          | 140,114                           |
| <b>Total current assets</b>  | <b>4,554,625</b>                 | <b>2,993,466</b>                  |
| Goodwill   | 5,999,765                        | 3,108,964                         |
| Intangible assets, net   | 3,315,083                        | 935,316                           |
| Other assets   | 90,938                           | 63,944                            |
| <b>TOTAL ASSETS</b>  | <b>\$13,960,411</b>              | <b>\$7,101,690</b>                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                                  |                                   |
| Current liabilities  |                                  |                                   |
| Accounts payable   | \$671,209                        | \$543,648                         |
| Accrued interest   | 17,769                           | 16,943                            |
| Accrued and deferred personnel compensation  | 195,316                          | 191,041                           |
| Deferred revenue and customer deposits   | 311,121                          | 136,523                           |
| Notes payable  | 20,000                           | 20,000                            |
| Derivative liabilities   | 76,097                           | 106,176                           |
| Other current liabilities  | 154,446                          | 36,372                            |
| Earn-out payable   | 2,321,767                        | 34,755                            |
| <b>Total current liabilities</b>   | <b>3,767,725</b>                 | <b>1,085,458</b>                  |
| Non-current liabilities  |                                  |                                   |
| Earn-out payable   | 10,233                           | 24,245                            |
| <b>Total non-current liabilities</b>   | <b>10,233</b>                    | <b>24,245</b>                     |
| <b>Total liabilities</b>   | <b>3,777,958</b>                 | <b>1,109,703</b>                  |
| Commitments and Contingencies (See Note 9)   |                                  |                                   |
| Stockholders' equity (deficit)   |                                  |                                   |
| Common stock, \$0.001 par value; 50,000,000 shares authorized; 22,237,762 and 16,319,878 shares issued and outstanding | 22,238                           | 16,320                            |
| Equity payable   | 108,170                          | 108,170                           |
| Additional paid-in capital   | 60,400,993                       | 54,452,697                        |
| Accumulated deficit  | (50,348,948)                     | (48,585,200)                      |
| <b>Total stockholders' equity (deficit)</b>  | <b>10,182,453</b>                | <b>5,991,987</b>                  |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  | <b>\$13,960,411</b>              | <b>\$7,101,690</b>                |

See accompanying notes to condensed consolidated financial statements (unaudited).

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Mobivity Holdings Corp.  
Consolidated Statements of Operations  
(Unaudited)

|   | Three months ended<br>March 31, |               |
|---|---------------------------------|---------------|
|   | 2014                            | 2013          |
| Revenues  |                                 |               |
| Revenues  | \$903,215                       | \$1,027,993   |
| Cost of revenues  | 260,893                         | 284,622       |
| Gross margin  | 642,322                         | 743,371       |
| Operating expenses  |                                 |               |
| General and administrative  | 1,129,953                       | 532,628       |
| Sales and marketing   | 941,085                         | 362,896       |
| Engineering, research, and development                                  | 297,933                         | 94,055        |
| Depreciation and amortization   | 68,083                          | 33,813        |
| Total operating expenses  | 2,437,054                       | 1,023,393     |
| Loss from operations  | (1,794,732 )                    | (280,022 )    |
| Other income/(expense)  |                                 |               |
| Interest income   | 1,731                           | 3             |
| Interest expense  | (826 )                          | (1,447,359)   |
| Change in fair value of derivative liabilities                          | 30,079                          | (1,001,550)   |
| Gain (loss) on adjustment in contingent consideration                   | -                               | 305,712       |
| Total other income/(expense)  | (30,984 )                       | (2,143,194)   |
| Loss before income taxes  | (1,763,748 )                    | (2,423,215)   |
| Income tax expense  | -                               | -             |
| Net loss  | \$(1,763,748 )                  | \$(2,423,215) |
| Net loss per share - basic and diluted                                  | \$(0.10 )                       | \$(0.63 )     |
| Weighted average number of shares during the period - basic and diluted | 17,490,954                      | 3,869,247     |

See accompanying notes to condensed consolidated financial statements (unaudited).

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Mobivity Holdings Corp.  
Consolidated Statement of Stockholders' Equity (Deficit)

|   | Common Stock |           | Equity     | Additional    | Accumulated     | Total         |
|---|--------------|-----------|------------|---------------|-----------------|---------------|
|   | Shares       | Dollars   | Payable    | Paid-in       | Deficit         | Stockholders' |
|   |              |           |            | Capital       |                 | Equity        |
|   |              |           |            |               |                 | (Deficit)     |
| Balance, December 31, 2013  | 16,319,878   | \$ 16,320 | \$ 108,170 | \$ 54,452,697 | \$ (48,585,200) | \$ 5,991,987  |
| Issuance of common stock for financing, net of transaction costs of \$448,635 | 5,413,000    | 5,413     |            | 4,958,945     |                 | 4,964,358     |
| Issuance of common stock for acquisition                                      | 504,884      | 505       |            | 672,000       |                 | 672,505       |
| Stock based compensation  |              |           |            | 317,351       |                 | 317,351       |
| Net loss  |              |           |            |               | (1,763,748 )    | (1,763,748 )  |
| Balance, March 31, 2014   | 22,237,762   | \$ 22,238 | \$ 108,170 | \$ 60,400,993 | \$ (50,348,948) | \$ 10,182,453 |

See accompanying notes to condensed consolidated financial statements (unaudited).

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Mobivity Holdings Corp.  
Consolidated Statements of Cash Flows  
(Unaudited)

|   | Three months ended<br>March 31, |               |
|---|---------------------------------|---------------|
|   | 2014                            | 2013          |
| <b>OPERATING ACTIVITIES</b>   |                                 |               |
| Net loss  | \$(1,763,748)                   | \$(2,423,215) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                 |               |
| Bad debt expense  | 3,983                           | (12,772 )     |
| Stock-based compensation  | 317,351                         | 93,502        |
| Depreciation and amortization expense   | 68,084                          | 33,813        |
| Gain (Loss) on adjustment in contingent consideration                                     | -                               | (305,712 )    |
| Change in fair value of derivative liabilities  | (30,079 )                       | 1,001,550     |
| Amortization of note discounts  | -                               | 1,334,729     |
| Increase (decrease) in cash resulting from changes in:                                    |                                 |               |
| Accounts receivable   | (3,351 )                        | 216,165       |
| Other current assets  | 11,219                          | (59,225 )     |
| Accounts payable  | 127,561                         | 93,165        |
| Accrued interest  | 826                             | 108,031       |
| Accrued and deferred personnel compensation   | 4,275                           | (24,605 )     |
| Deferred revenue and customer deposits  | (16,962 )                       | 5,323         |
| Other liabilities   | 118,074                         | (260 )        |
| Net cash used in operating activities   | (1,162,767)                     | 60,489        |
| <b>INVESTING ACTIVITIES</b>   |                                 |               |
| Purchases of equipment  | (22,225 )                       | -             |
| Acquisitions  | (2,368,019)                     | (195,630 )    |
| Net cash used in investing activities   | (2,390,244)                     | (195,630 )    |
| <b>FINANCING ACTIVITIES</b>   |                                 |               |
| Proceeds from issuance of notes payable, net of finance offering costs                    | -                               | 200,000       |
| Payments on notes payable   | -                               | (21,040 )     |
| Proceeds from issuance of common stock, net of issuance costs                             | 4,964,358                       | -             |
| Net cash provided by financing activities   | 4,964,358                       | 178,960       |
| Net change in cash  | 1,411,347                       | 43,819        |
| Cash at beginning of period   | 2,572,685                       | 363           |
| Cash at end of period   | \$3,984,032                     | \$44,182      |
| Supplemental disclosures:   |                                 |               |
| Cash paid during period for   |                                 |               |
| Interest  | \$-                             | \$3,960       |
| Non-cash investing and financing activities:  |                                 |               |
| Note discount   | \$-                             | \$133,725     |
| Adjustment to derivative liability due to note repayment                                  | \$-                             | \$15,406      |
| Earn out payable for acquisitions   | \$2,273,000                     | \$-           |
|   | \$-                             | \$1,711,490   |



Common stock payable recorded for earn out payment related to the Boomtext acquisition

|   |           |           |
|---|-----------|-----------|
| Issuance of common stock for acquisitions                               | \$672,505 | \$-       |
| Settlement of working capital asset related to the Boomtext acquisition | \$-       | \$153,317 |

See accompanying notes to condensed consolidated financial statements (unaudited).

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Mobivity Holdings Corp.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. Nature of Operations and Basis of Presentation

Mobivity Holdings Corp. (“Mobivity,” “we” or “us” or “the Company”) is in the business of developing and operating proprietary platforms over which resellers, brands and enterprises can conduct localized mobile marketing campaigns. Our proprietary platforms allow resellers, brands and enterprises to market their products and services to consumers through text messages sent directly to the consumers’ mobile phones, mobile smartphone applications, or other solutions driven from consumers’ mobile phones. We generate revenue by charging the resellers, brands and enterprises a per-message transactional fee, or through fixed or variable software licensing fees.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and disclosures required by GAAP for annual financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 31, 2014.

In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of our condensed consolidated financial statements as of March 31, 2014, and for the three months ended March 31, 2014 and 2013. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results for the full year ending December 31, 2014.

On November 12, 2013, we filed an amendment to our articles of incorporation on file with the Nevada Secretary of State for purposes of (i) effecting a reverse split of the issued and outstanding shares of our common stock at a ratio of one share for every six shares outstanding prior to November 12, 2013 and (ii) decreasing the authorized shares of its common stock to 50,000,000 shares. The reverse stock split was effective as of November 12, 2013. The reverse stock split effected a proportional decrease in the number of shares of common stock issuable upon the exercise of our stock options and warrants outstanding immediately prior to the effective date of the reverse stock split, with a proportional increase in the exercise price. No fractional shares were issued as a result of the reverse stock split. In lieu of issuing fractional shares, we rounded all fractional interests resulting from the split up to the nearest whole number. All historical share information contained in this Quarterly Report on Form 10-Q gives effect to the reverse stock split.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

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### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Significant estimates used are those related to stock-based compensation, the valuation of the derivative liabilities, asset impairments, the valuation and useful lives of depreciable tangible and certain intangible assets, the fair value of common stock used in acquisitions of businesses, the fair value of assets and liabilities acquired in acquisitions of businesses, and the valuation allowance of deferred tax assets. Management believes that these estimates are reasonable; however, actual results may differ from these estimates.

### Derivative Financial Instruments

We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks.

We review the terms of the common stock, warrants and convertible debt we issue to determine whether there are embedded derivative instruments, including embedded conversion options, which are required to be bifurcated and accounted for separately as derivative financial instruments. In circumstances where the host instrument contains more than one embedded derivative instrument, including the conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

Bifurcated embedded derivatives are initially recorded at fair value and are then revalued at each reporting date with changes in the fair value reported as non-operating income or expense. When the equity or convertible debt instruments contain embedded derivative instruments that are to be bifurcated and accounted for as liabilities, the total proceeds received are first allocated to the fair value of all the bifurcated derivative instruments. The remaining proceeds, if any, are then allocated to the host instruments themselves, usually resulting in those instruments being recorded at a discount from their face value.

The fair values of the derivatives are estimated using a Monte Carlo simulation model. The model utilizes a series of inputs and assumptions to arrive at a fair value at the date of inception and each reporting period. Some of the key assumptions include the likelihood of future financing, stock price volatility, and discount rates.

### Revenue Recognition and Concentrations

Our “C4” Mobile Marketing and Customer Relationship Management (CRM) and Txtstation Control Center platforms are hosted solutions. We generate revenue from licensing our software to clients in our software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services. We recognize license fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. We recognize revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. We consider authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting. As for the Mobivity and Boomtext platforms, which are both hosted solutions, revenue is principally derived from subscription fees from customers. The subscription fee is billed on a month to month basis with no contractual term and is collected by credit card for Mobivity and collected by cash and credit card for Boomtext. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. For our SmartReceipt platform, which is a hosted solution, revenue is principally derived from subscription fees from customers. The subscription fee is billed on a month to month basis with primarily no contractual term and is collected by cash. Cash received in advance of the performance of services is recorded as deferred revenue.

We generate revenue from the Stamp App through customer agreements with business owners. Revenue is principally derived from monthly subscription fees which provide a license for unlimited use of the Stamp App by the business owners and their customers. The subscription fee is billed each month to the business owner. Revenue is recognized monthly as the subscription revenues are billed. There are no per-minute or transaction fees associated with the Stamp App.

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During the three months ended March 31, 2014 and 2013, one customer accounted for 16% and 29%, respectively, of our revenues.

### Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. We are required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the three months ended March 31, 2014 and 2013, the comprehensive loss was equal to the net loss.

### Net Loss Per Common Share

Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. During the three month ended March 31, 2014 and 2013, we had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive.

### Reclassifications

Certain amounts from prior periods have been reclassified to conform to the current period presentation.

### Recent Accounting Pronouncements

Accounting standards promulgated by the FASB are subject to change. Changes in such standards may have an impact on the Company's future financial statements. The following are a summary of recent accounting developments.

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires that unrecognized tax benefits be presented on a net basis with the deferred tax assets for such carryforwards. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. We do not expect the adoption of the new provisions to have a material impact on our financial condition or results of operations.

In February 2013, FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in the ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period; and

- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual).

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The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Early adoption is permitted. The adoption of ASU No. 2013-02 did not have a material impact on our financial position or results of operations.

In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which clarifies which instruments and transactions are subject to the offsetting disclosure requirements originally established by ASU 2011-11. The new ASU addresses preparer concerns that the scope of the disclosure requirements under ASU 2011-11 was overly broad and imposed unintended costs that were not commensurate with estimated benefits to financial statement users. In choosing to narrow the scope of the offsetting disclosures, the Board determined that it could make them more operable and cost effective for preparers while still giving financial statement users sufficient information to analyze the most significant presentation differences between financial statements prepared in accordance with U.S. GAAP and those prepared under IFRSs. Like ASU 2011-11, the amendments in this update will be effective for fiscal periods beginning on, or after January 1, 2013. The adoption of ASU 2013-01 did not have a material impact on our financial position or results of operations.

In October 2012, the FASB issued ASU 2012-04, "Technical Corrections and Improvements" in Accounting Standards Update No. 2012-04. The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on our financial position or results of operations.

In August 2012, the FASB issued ASU 2012-03, "Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)" in Accounting Standards Update No. 2012-03. This update amends various SEC paragraphs pursuant to the issuance of SAB No. 114. The adoption of ASU 2012-03 is not expected to have a material impact on our financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" in Accounting Standards Update No. 2012-02. ASU 2012-2 allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU No. 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test. Otherwise, the quantitative impairment test is not required. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of the provisions of ASU No. 2012-02 will not have a material impact on the Company's financial position or results of operations.

### 3. Acquisitions

#### SmartReceipt Acquisition

On March 12, 2014, the Company, entered into an Asset Purchase Agreement ("Asset Purchase Agreement") with SmartReceipt, Inc., a Delaware corporation ("SmartReceipt"). The closing of the transactions under the Asset Purchase Agreement took place on March 12, 2014. Pursuant to the Asset Purchase Agreement, the Company acquired all of the assets of SmartReceipt in exchange for:

the Company's payment at closing of \$2.212 million of cash, net of a \$150,000 loan made by the Company to SmartReceipt in January 2014;

the Company's issuance of 504,884 shares of its \$0.001 par value common stock; and

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The Company's earn-out payment of 200% of the "eligible revenue" of the Company over the 12 month period following the close of the transaction ("earn-out period"). The "eligible revenue" will consist of: 100% of Company revenue derived during the earn out period from the sale of SmartReceipt products and services to certain SmartReceipt clients as of the close (the "designated SmartReceipt clients"); plus 50% of Company revenue derived during the earn out period from the sale of Company products and services to the designated SmartReceipt clients, plus 50% of the Company revenue derived during the earn out period from the sale of SmartReceipt products and services to Company clients who are not designated SmartReceipt clients. The earn-out payment will be payable in common shares of the Company (valued at the Closing VWAP) no later than the 90th day following the end of the earn-out period. For purposes of the foregoing, the "Closing VWAP" means the volume weighted average trading price of the Company's common stock for the 90 trading days preceding the initial close of the transactions under the Asset Purchase Agreement.

Pursuant to the Asset Purchase Agreement, SmartReceipt has agreed that 50% of the shares issuable to SmartReceipt or its shareholders at the initial closing will be held back by the Company for a period of 12 months and will be subject to cancellation based on indemnification claims of the Company.

The allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

|                          |              |
|--------------------------|--------------|
| Accounts receivable, net | \$ 161,664   |
| Other assets             | 6,620        |
| Customer relationships   | 2,010,000    |
| Developed technology     | 260,000      |
| Trade name               | 176,000      |
| Goodwill                 | 2,890,801    |
| Total assets acquired    | 5,505,085    |
| Liabilities assumed      | (191,561)    |
| Net assets acquired      | \$ 5,313,524 |

The purchase price consists of the following:

|                      |              |
|----------------------|--------------|
| Cash                 | \$ 2,368,019 |
| Earn Out             | 2,273,000    |
| Common stock         | 672,505      |
| Total purchase price | \$ 5,313,524 |

The following information presents unaudited pro forma consolidated results of operations for the three months ended March 31, 2014 as if the SmartReceipt acquisition described above had occurred on January 1, 2014. The following unaudited pro forma financial information gives effect to certain adjustments, including the increase in stock based compensation expense that had not been valued prior to acquisition. The pro forma financial information is not necessarily indicative of the operating results that would have occurred if the acquisition been consummated as of the date indicated, nor are they necessarily indicative of future operating results.

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Mobivity Holdings Corp.  
 Unaudited Pro Forma Condensed Consolidated Statement of Operations  
 For the quarter ended March 31, 2014

|   | Mobivity       | SR           | Pro forma<br>adjustments | Pro forma<br>combined |
|---|----------------|--------------|--------------------------|-----------------------|
| <b>Revenues</b>   |                |              |                          |                       |
| Revenues  | \$903,215      | \$214,139    | \$ -                     | \$1,117,354           |
| Cost of revenues  | 260,893        | 54,410       | -                        | 315,303               |
| Gross margin  | 642,322        | 159,729      | -                        | 802,051               |
| <b>Operating expenses</b>   |                |              |                          |                       |
| General and administrative  | 1,129,953      | 231,084      | 4,230 (a)                | 1,365,267             |
| Sales and marketing   | 941,085        | 60,077       | -                        | 1,001,162             |
| Engineering, research, and development                                  | 297,933        | 139,649      | -                        | 437,582               |
| Depreciation and amortization   | 68,083         | 403          | -                        | 68,486                |
| Total operating expenses  | 2,437,054      | 431,213      | 4,230                    | 2,872,497             |
| Loss from operations  | (1,794,732 )   | (271,484 )   | (4,230 )                 | (2,070,446 )          |
| <b>Other income/(expense)</b>   |                |              |                          |                       |
| Interest income   | 1,731          | -            | -                        | 1,731                 |
| Interest expense  | (826 )         | -            | -                        | (826 )                |
| Change in fair value of derivative liabilities                          | 30,079         | -            | -                        | 30,079                |
| Gain on adjustment in contingent consideration                          | -              | -            | -                        | -                     |
| Total other income/(expense)  | 30,984         | -            | -                        | 30,984                |
| Loss before income taxes  | (1,763,748 )   | (271,484 )   | (4,230 )                 | (2,039,462 )          |
| Income tax expense  | -              | -            | -                        | -                     |
| Net loss  | \$(1,763,748 ) | \$(271,484 ) | \$(4,230 )               | \$(2,039,462 )        |
| Net loss per share - basic and diluted                                  | \$(0.10 )      |              |                          | \$(0.12 )             |
| Weighted average number of shares during the period - basic and diluted | 17,490,954     |              |                          | 17,384,367            |

**Pro Forma Adjustments**

The following pro forma adjustments are based upon the value of the tangible and intangible assets acquired as determined by an independent valuation firm.

(a) Represents stock based compensation in conjunction with the transaction.



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The following information presents unaudited pro forma consolidated results of operations for the year ended December 31, 2013 as if the SmartReceipt acquisition described above had occurred on January 1, 2013. The following unaudited pro forma financial information gives effect to certain adjustments, including the increase in stock based compensation expense that had not been valued prior to acquisition. The pro forma financial information is not necessarily indicative of the operating results that would have occurred if the acquisition been consummated as of the date indicated, nor are they necessarily indicative of future operating results.

Mobivity Holdings Corp.  
Unaudited Pro Forma Condensed Consolidated Statement of Operations  
For the year ended December 31, 2013

|  | Mobivity        | SR            | Pro forma<br>adjustments | Pro forma<br>combined |
|--|-----------------|---------------|--------------------------|-----------------------|
| <b>Revenues</b>                                |                 |               |                          |                       |
| Revenues                                       | \$ 4,093,667    | \$ 834,250    | \$ -                     | \$ 4,927,917          |
| Cost of revenues                               | 1,122,037       | 243,209       | -                        | 1,365,246             |
| Gross margin                                   | 2,971,630       | 591,041       | -                        | 3,562,671             |
| <b>Operating expenses</b>                      |                 |               |                          |                       |
| General and administrative                     | 3,416,850       | 211,271       | 446,094 (a)              | 4,074,215             |
| Sales and marketing                            | 3,469,383       | 339,615       | -                        | 3,808,998             |
| Engineering, research, and development         | 824,653         | 644,330       | -                        | 1,468,983             |
| Depreciation and amortization                  | 270,579         | 3,970         | -                        | 274,549               |
| Goodwill impairment                            | 1,066,068       | -             | -                        | 1,066,068             |
| Intangible asset impairment                    | 644,170         | -             | -                        | 644,170               |
| Total operating expenses                       | 9,691,703       | 1,199,186     | 446,094                  | 11,336,983            |
| Loss from operations                           | (6,720,073 )    | (608,145 )    | (446,094 )               | (7,774,312 )          |
| <b>Other income/(expense)</b>                  |                 |               |                          |                       |
| Interest income                                | 747             | -             | -                        | 747                   |
| Interest expense                               | (6,348,186 )    | (117,944 )    | -                        | (6,466,130 )          |
| Change in fair value of derivative liabilities | (3,766,231 )    | -             | -                        | (3,766,231 )          |
| Gain on Debt Extinguishment                    | 103,177         | -             | -                        | 103,177               |
| Gain on adjustment in contingent consideration | (28,465 )       | -             | -                        | (28,465 )             |
| Total other income/(expense)                   | (10,038,958)    | (117,944 )    | -                        | (10,156,902)          |
| Loss before income taxes                       | (16,759,031)    | (726,089 )    | (446,094 )               | (17,931,214)          |
| Income tax expense                             | -               | -             | -                        | -                     |
| Net loss                                       | \$ (16,759,031) | \$ (726,089 ) | \$ (446,094 )            | \$ (17,931,214)       |
| Net loss per share - basic and diluted         | \$ (1.58 )      |               |                          | \$ (1.61 )            |

Weighted average number of  
shares

during the period - basic and  
diluted

10,612,007

11,116,891

Pro Forma Adjustments

The following pro forma adjustments are based upon the value of the tangible and intangible assets acquired as determined by an independent valuation firm.

(b) Represents stock based compensation in conjunction with the transaction.

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## Sequence Acquisition

In May 2013, we acquired certain assets of Sequence, LLC (“Sequence”) pursuant to an asset purchase agreement. Pursuant to the asset purchase agreement, we acquired all application software, URL’s, websites, trademarks, brands, customers and customer lists from Sequence. We assumed no liabilities of Sequence.

The purchase price consisted of: (1) \$300,000 in cash; (2) 750,000 shares of our common stock valued based on the closing market price on the acquisition date at \$183,750; and (3) twenty-four monthly earn-out payments consisting of 10% of the eligible monthly revenue subsequent to closing with a fair value of \$224,000.

We completed the acquisition in furtherance of our strategy to acquire small, privately owned enterprises in the mobile marketing sector through an asset purchase structure. This acquisition was consistent with our purchase price model in which equity will represent most of the purchase price plus a small cash component and, in some cases, the assumption of specific liabilities.

The acquisition was accounted for as a business combination and we valued the assets acquired at their fair values on the date of acquisition. An independent valuation expert assisted us in determining these fair values. The assets of the acquired entity were recorded at their estimated fair values at the date of the acquisition.

The allocation of the purchase price to the assets acquired based upon fair value determinations was as follows:

|                        |            |
|------------------------|------------|
| Merchant relationships | \$ 181,000 |
| Trade name             | 76,000     |
| Developed technology   | 71,000     |
| Goodwill               | 379,750    |
| Total assets acquired  | \$ 707,750 |

The purchase price consisted of the following:

|                      |            |
|----------------------|------------|
| Cash                 | \$ 300,000 |
| Common stock         | 183,750    |
| Earn-out payable     | 224,000    |
| Total purchase price | \$ 707,750 |

Pro forma results of operations were not included due to the investment test not reaching the level of a significant acquisition.

## Front Door Insights Acquisition

In May 2013, we acquired certain assets and liabilities of Front Door Insights, LLC (“FDI”), pursuant to an asset purchase agreement. The assets and liabilities acquired from FDI consisted of cash on hand, accounts receivable, all rights under all contracts other than excluded contracts, prepaid expenses, all technology and intellectual property rights, accounts payable, and obligations under a commercial lease.

The purchase price consisted of: (1) \$100,000 in cash; (2) a non-interest bearing promissory note in the principal amount of \$1,400,000, which was discounted by \$34,904; and (3) 7,000,000 shares of our common stock valued based on the closing market price on the acquisition date at \$1,112,310.

The asset purchase agreement included a working capital adjustment pursuant to which the number of shares issuable to FDI would be increased, or decreased, in the event the working capital of FDI exceeds, or is less than, \$10,000, respectively, as of the closing. The working capital adjustment due to us is \$1,552, and the parties determined to settle this amount in cash.

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The asset purchase agreement contains customary representations, warranties and covenants by the parties, including each party's agreement to indemnify the other against any claims or losses arising from their breach of the asset purchase agreement. FDI and its members have also agreed that for a period of three years following the closing not to engage in the business of providing interactive mobile marketing platforms or services or to solicit the pre-closing clients, vendors or employees of FDI, except in each case on our behalf.

We completed the acquisition in furtherance of our strategy to acquire small, privately owned enterprises in the mobile marketing sector through an asset purchase structure. This acquisition was consistent with our purchase price model in which equity will represent most of the purchase price plus a small cash component and, in some cases, the assumption of specific liabilities.

The acquisition was accounted for as a business combination and we valued all assets and liabilities acquired at their fair values on the date of acquisition. An independent valuation expert assisted us in determining these fair values. The assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the acquisition.

During the year ended December 31, 2014, we adjusted the liabilities assumed in the transaction, in accordance with the asset purchase agreement, from \$162,886 to \$46,219, which resulted in an increase in additional paid-in capital of \$78,000 and a reduction of goodwill of \$38,667.

The allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

|                        |              |
|------------------------|--------------|
| Cash                   | \$ 5,500     |
| Accounts receivable    | 27,467       |
| Contracts              | 813,000      |
| Customer relationships | 22,000       |
| Developed technology   | 96,000       |
| Non-compete agreement  | 124,000      |
| Goodwill               | 1,535,658    |
| Total assets acquired  | 2,623,625    |
| Liabilities assumed    | (46,219)     |
| Net assets acquired    | \$ 2,577,406 |

The purchase price consists of the following:

|                      |              |
|----------------------|--------------|
| Cash                 | \$ 100,000   |
| Promissory note, net | 1,365,096    |
| Common stock         | 1,112,310    |
| Total purchase price | \$ 2,577,406 |

#### 4. Goodwill and Purchased Intangibles

##### Goodwill

The carrying value of goodwill at March 31, 2014 and December 31, 2013 was \$5,999,765 and \$3,108,964, respectively. Goodwill at March 31, 2014 includes \$2,890,801 recorded as a result an acquisition in March 2014. See Note 3.





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## Intangible assets

The following table presents details of our purchased intangible assets as of March 31, 2014 and December 31, 2013:

|                                     | Balance at<br>December<br>31, 2013 | Additions    | Amortization | Balance at<br>March 31,<br>2014 |
|-------------------------------------|------------------------------------|--------------|--------------|---------------------------------|
| Patents and trademarks              | \$ 118,098                         | \$ -         | \$ (2,287)   | \$ 115,811                      |
| Customer contracts                  | 541,528                            | -            | (25,033)     | 516,495                         |
| Customer and merchant relationships | -                                  | 2,010,000    | (10,806)     | 1,999,194                       |
| Trade name                          | 22,391                             | 176,000      | (3,368)      | 195,023                         |
| Acquired technology                 | 182,298                            | 260,000      | (17,394)     | 424,904                         |
| Non-compete agreement               | 71,001                             | -            | (7,345)      | 63,656                          |
|                                     | \$ 935,316                         | \$ 2,446,000 | \$ (66,233)  | \$ 3,315,083                    |

The intangible assets are being amortized on a straight line basis over their estimated useful lives of one to ten years.

During the three months ended March 31, 2014, the following intangible assets were purchased with the following useful lives:

## SmartReceipt, Inc.:

|                        | Fair value   | Useful Life |
|------------------------|--------------|-------------|
| Merchant relationships | \$ 2,010,000 | 10 years    |
| Trade name             | \$ 176,000   | 10 years    |
| Developed technology   | \$ 260,000   | 10 years    |

Amortization expense for intangible assets was \$66,233 and \$31,957 for the three months ended March 31, 2014 and 2013, respectively.

The estimated future amortization expense of our intangible assets as of March 31, 2014 is as follows:

| Year ending December 31, | Amount      |
|--------------------------|-------------|
| 2014                     | \$342,693   |
| 2015                     | 462,976     |
| 2016                     | 385,040     |
| 2017                     | 339,669     |
| 2018                     | 333,820     |
| Thereafter               | 1,450,885   |
| Total                    | \$3,315,083 |

## 5. Derivative Liabilities

## Convertible notes payable and underlying warrants

As discussed in Note 6 under Bridge Financing, we previously issued convertible notes payable that provided for the issuance of warrants to purchase our common stock at a future date. The conversion term for the convertible notes was variable based on certain factors. The number of warrants to be issued was based on the future price of our common stock.



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As of December 31, 2012 and through June 17, 2013, the number of warrants to be issued was indeterminate. Due to the fact that the number of warrants issuable was indeterminate, the equity environment was tainted and the fair value of all of the warrants underlying the convertible notes payable was recorded as a derivative liability. The fair values of the variable maturity conversion feature (“VMCO”) and the additional share issuance feature (“ASID”) were recorded as derivative liabilities on the issuance date.

On June 17, 2013, we converted all of the outstanding convertible notes payable into shares of our common stock, and issued the warrants underlying the convertible notes payable. At that time, the derivative liabilities related to the VMCO and ASID totaling \$7,792,657 were reclassified to additional paid-in capital.

### Private Placement Shares and Warrants

We completed a private placement in September 2011 for the sale of units consisting of shares of common stock and warrants to purchase our common stock. Both the common shares and the warrants contain anti-dilutive, or down round, price protection. We recorded derivative liabilities related to the down round price protection on the common shares and the warrants.

The down round price protection on the common shares expired in August 2012, and the down round price protection for the warrants terminates when the warrants expire or are exercised.

### Allonge

As discussed in Note 6 under Bridge Financing, all note holders with convertible notes payable maturing in February 2012 extended the maturity date through May 2012. As consideration to the note holders for the extension of the maturity date, we provided allonges which consisted of the accrued interest on each convertible note payable as of January 31, 2012. The allonges were convertible into shares of common stock at the latest financing price. The value of the allonges was recorded as a derivative liability at the issuance date.

On June 17, 2013, the number of common shares issuable under the allonges was determined to be 527,679 and these shares were issued in July 2013.

### Non-employee Warrants

As discussed in Note 7 under Warrants, we previously accounted for warrants issued to non-employees as derivative liabilities. On June 17, 2013, the equity environment was no longer tainted and the value of the derivative liabilities related to the non-employee warrants totaling \$176,555 were reclassified to additional paid-in capital.

### Summary

The fair values of our derivative liabilities are estimated at the issuance date and are revalued at each subsequent reporting date using a Monte Carlo simulation discussed below.

At March 31, 2014 and December 31, 2013, we recorded current derivative liabilities of \$76,097 and \$106,176, respectively, which are detailed by instrument type in the table below.

The net change in fair value of the derivative liabilities for the three months ended March 31, 2014 and 2013 was a loss of \$30,079 and a gain of \$1,001,550, respectively.



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The following table presents the derivative liabilities by instrument type as of March 31, 2014 and December 31, 2013:

| Derivative Value by Instrument Type | March 31,<br>2014 | December<br>31,<br>2013 |
|-------------------------------------|-------------------|-------------------------|
| Common Stock and Warrants           | \$ 76,097         | \$ 106,176              |
|                                     | \$ 76,097         | \$ 106,176              |

The following table presents details of our derivative liabilities from December 31, 2013 to March 31, 2014:

|  |            |
|--|------------|
| Balance December 31, 2013                      | \$ 106,176 |
| Change in fair value of derivative liabilities | (30,079)   |
| Balance March 31, 2014                         | \$ 79,097  |

An independent valuation expert calculated the fair value of the compound embedded derivatives using a complex, customized Monte Carlo simulation model suitable to value path dependent American options. The model uses the risk neutral methodology adapted to value corporate securities. This model utilized subjective and theoretical assumptions that can materially affect fair values from period to period.

Key inputs and assumptions used in valuing our derivative liabilities are as follows:

For issuances of notes, common stock and warrants:

- Stock prices on all measurement dates were based on the fair market value
- Down round protection is based on the subsequent issuance of common stock at prices less than \$1.00 per share and warrants with exercise prices less than \$1.00 per share
- The probability of a future equity financing event triggering the down round protection was estimated at 0%
- Computed volatility of 115.5%
- Risk free rate of 0.21%

## 6. Bridge Financing, Notes Payable, and Accrued Interest

### Bridge Financing

#### Summary

Prior to June 2013, we issued 10% Senior Secured Convertible Bridge Notes Payable (“Bridge Notes” or “new Bridge Notes”) to various accredited investors, and then extended the due dates on the majority of the Bridge Notes several times. In June 2013, the outstanding principal of the Bridge Notes totaling \$4,984,720 was converted into 24,923,602 shares of our common stock at \$0.20 per share. We no longer have any outstanding Bridge Notes.

The Bridge Notes contained variable maturity dates and additional share issuance obligations and we recorded discounts to the Bridge Notes for the VMCO and ASID. The discounts were amortized to interest expense over the term of the Bridge Notes using the effective interest method. We determined that the VMCO and the ASID represented embedded derivative features, and these were recorded as derivative liabilities. See Note 5.

We capitalized costs associated with the issuance of the Bridge Notes, and amortized these costs to interest expense over the term of the related Bridge Notes using the effective interest method.

The outstanding balances of the bridge notes at March 31, 2014 and December 31, 2013 were \$0 and \$0, respectively.

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Following is a detailed discussion of the Bridge Notes transactions.

2012

As of January 1, 2012, the principal balance on our outstanding Bridge Notes totaled \$1,062,500. The principal balance and accrued interest was due on the earlier of (i) the date we completed a financing transaction for the offer and sale of shares of common stock (including securities convertible into or exercisable for its common stock), in an aggregate amount of no less than 125% of the principal amount (a qualifying financing), and (ii) February 2, 2012. If the Bridge Notes were held to maturity, we would have paid, at the option of the holder: i) in cash or ii) in securities to be issued by us in the qualifying financing at the same price paid by other investors. The Bridge Notes were secured by a first priority lien and security interest in all of our assets.

In January 2012, we issued additional Bridge Notes in the aggregate principal amount of \$520,000. These Bridge Notes were due February 2, 2012 and contained the same rights and privileges as the previously issued Bridge Notes.

In March 2012, we repaid Bridge Notes totaling \$65,000.

In April 2012, all note holders with Bridge Notes maturing on February 2, 2012 extended the maturity date through May 2, 2012. As consideration to the note holders for the extension of the maturity date, we provided allonges which consisted of the accrued interest for each Bridge Note as of January 31, 2012, which are convertible into shares of our common stock at the latest financing price. The value of the allonges was recorded as a derivative liability. See Note 5.

In March 2012 and April 2012, we issued additional Bridge Notes in the aggregate principal amount of \$220,100 with a due date of May 2, 2012. In May 2012, these notes were cancelled and converted into new Bridge Notes discussed below.

In May and June 2012, we issued to a number of accredited investors our new Bridge Notes in the aggregate principal amount of \$4,347,419, consisting of (i) \$2,656,250 of new funds and (ii) \$1,691,169 of principal amount and accrued interest due under our previously issued Bridge Notes that were cancelled and converted into new Bridge Notes. The new Bridge Notes accrued interest at the rate of 10% per annum.

The principal amount under the new Bridge Notes plus all accrued and unpaid interest was due on the earlier of (i) the date we completed a financing transaction for the offer and sale of shares of common stock (including securities convertible into or exercisable for its common stock), in an aggregate amount of no less than 125% of the principal amount (a qualifying financing), and (ii) October 15, 2012, which date, as described below, was later extended to April 15, 2013. Payments could have been made in cash, or, at the option of the holder of the new Bridge Notes, in securities to be issued by us in the qualifying financing at the same price paid for such securities by other investors. The new Bridge Notes were secured by a first priority lien and security interest in all of our assets.

We also had the obligation to issue to the holders of the new Bridge Notes on the date that is the earlier of the repayment of the new Bridge Notes or the completion of the qualifying financing, at their option:

five year warrants to purchase that number of shares of common stock equal to the principal amount plus accrued interest divided by the per share purchase price of the common stock offered and sold in the qualifying financing (the offering price) which warrants were to be exercisable at the offering price and would include cashless exercise provisions commencing eighteen months from the date of issuance of the warrants if there is not at that time an effective registration statement covering the shares of common stock exercisable upon exercise of the warrants, or



that number of shares of common stock equal to the product arrived at by multiplying (x) the principal amount plus accrued interest divided by the offering price and (y) 0.33.

We granted piggy-back registration rights with respect to the securities to be issued in connection with the new Bridge Notes.

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The new Bridge Notes further provided that in the event of a change of control transaction, the proceeds from such transaction must be used by us to pay to the holders of the new Bridge Notes, pro rata based on the amount of new Bridge Notes owned by each holder, an amount equal to 1.5 times the amount of the aggregate principal amount outstanding under the new Bridge Notes, plus accrued interest due there under, plus all other fees, costs or other charges due there under.

The holders of the new Bridge Notes were also granted the right to appoint two designees to serve as members of our board of directors, which members will also serve as members of the Compensation Committee and the Audit Committee of our board of directors.

We used \$184,081 from the proceeds of the sale of the new Bridge Notes to pay off existing principal balances under the Bridge Notes that were not cancelled and converted into the new Bridge Notes.

In October 2012 and continuing thereafter, we entered into amendments with the holders the new Bridge Notes. Under the terms of the amendments, the holders of new Bridge Notes in the aggregate principal amount of \$4,342,419 agreed to extend the maturity date of the new Bridge Notes to April 15, 2013. In consideration of the new Bridge Note holders' agreement to extend the maturity date, the amendment provides that the holder shall have the option to convert the principal and interest under the new Bridge Note into the securities offered by us in a qualifying equity financing at the lower of (a) the same price paid for such securities by other investors investing in the financing or (b) \$0.50 per share (subject to adjustment in the event of a stock split, reclassification or the like). Prior to the amendment, the conversion option under the new Bridge Note entitled the holder to convert the principal and interest under the new Bridge Note into the securities offered by us in a qualifying equity financing at the same price paid for such securities by other investors investing in the financing. The conversion price of \$0.50 in (b) above triggered the price protection guarantee contained in the warrants issued in our 2011 private placement, and the exercise price on the warrants changed from \$2.00 per share to \$0.50 per share.

In November 2012, we repaid a new Bridge Note totaling \$5,000.

2013

In January 2013, we partially repaid a new Bridge Note totaling \$21,040.

In March 2013, we issued new Bridge Notes in the aggregate principal amount of \$200,000 that contained the same rights and privileges as the previously issued new Bridge Notes.

In April 2013, we issued new Bridge Notes in the aggregate principal amount of \$75,000 that contained the same rights and privileges as the previously issued new Bridge Notes.

In April 2013, we repaid a new Bridge Note totaling \$36,659.

In April 2013, we issued a new Bridge Note to our Chief Financial Officer ("CFO") totaling \$20,000 that contained the same rights and privileges as the previously issued new Bridge Notes, the due date of which was extended to October 15, 2013.

In May 2013, a majority of the new Bridge Note holders agreed to extend the maturity date of the new Bridge Notes to October 15, 2013 from April 15, 2013. In consideration of the new Bridge Note holders' agreement to extend the maturity date, the amendment provides that the new Bridge Note holders have the option to convert the principal and accrued interest under the new Bridge Note into the securities offered by us in a qualifying equity financing at the lower of (a) the same price paid for such securities by other investors investing in the financing or (b) \$0.25 per share

(subject to adjustment in the event of a stock split, reclassification or the like). Prior to the amendment, the conversion option under the new Bridge Notes entitled the new Bridge Note holders to convert the principal and accrued interest under the new Bridge Notes into the securities offered by us in a qualifying equity financing at the lower of (a) the same price paid for such securities by other investors investing in the financing or (b) \$0.50 per share (subject to adjustment in the event of a stock split, reclassification or the like).

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As a result of this amendment and the additional consideration given, the embedded derivative features in the Bridge Notes were revalued on April 15, 2013 to \$4,052,148. We recorded new note discounts and derivative liabilities on April 15, 2013 based on the fair value of the derivative instruments. During the period from April 15, 2013 through June 17, 2013, the entire balance of the note discounts was amortized to interest expense as the conversion on June 17, 2013 triggered the immediate recognition of the full value of the debt discount.

In May 2013, we issued new Bridge Notes in the aggregate principal amount of \$387,500 that contained the same rights and privileges as the previously issued and amended new Bridge Notes.

In May 2013, we issued a new Bridge Note to our Chief Executive Officer (“CEO”) totaling \$17,500 that contained the same rights and privileges as the previously issued and amended new Bridge Notes.

In June 2013, we completed a qualifying equity financing at \$0.20 per share. See Note 7. Pursuant to the terms of the new Bridge Notes, we converted the principal amount of Bridge Notes totaling \$4,984,720 into 24,923,602 shares of our common stock at \$0.20 per share. Also, in June 2013, we converted accrued interest on the Bridge Notes totaling \$369,786 into 1,848,930 shares of our common stock at \$0.20 per share.

Certain note holders elected to receive cash payment for their accrued interest, and the remaining accrued interest on the Bridge Notes of \$95,404 was paid in July 2013.

## Discounts recorded related to the Bridge Notes

We recorded discounts to the Bridge Notes for the VMCO and ASID. The discounts were amortized to interest expense over the term of the Bridge Notes using the effective interest method. All of the discounts related to the Bridge Notes were recognized as interest expense in June 2013 in conjunction with the conversion of the Bridge Notes into shares of our common stock.

We determined that the VMCO and the ASID represented embedded derivative features, and these were shown as derivative liabilities on the balance sheet. See Note 5.

The following table presents details of the discounts to our Bridge Notes from December 31, 2012 to March 31, 2014:

|                   | VMCO         | ASID           | Total          |
|-------------------|--------------|----------------|----------------|
| December 31, 2012 | \$ (481,390) | \$ (1,003,359) | \$ (1,484,749) |
| Additions         | (1,936,191)  | (2,678,523)    | (4,614,714)    |
| Amortization      | 2,417,581    | 3,681,882      | 6,099,463      |
| December 31, 2013 | \$ -         | \$ -           | \$ -           |
| Additions         | -            | -              | -              |
| Amortization      | -            | -              | -              |
| March 31, 2014    | \$ -         | \$ -           | \$ -           |

During the three months ended March 31, 2014 and 2013, we recorded Bridge Note discount amortization to interest expense of \$0- and \$1,334,729, respectively.

## Cherry Family Trust Note

This note was issued on March 1, 2007, for the principal amount of \$20,000, interest accrues at the rate of 9% compounded annually, with a maturity date of December 31, 2008. Accrued interest was \$17,769 and \$16,943 as of March 31, 2014 and December 31, 2013, respectively. Currently past due.



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## Digimark, LLC Notes

As partial consideration for the acquisition of Boomtext in 2011, we issued an unsecured subordinated promissory note in the principal amount of \$194,658. The promissory note did not bear interest, was payable in installments (varying in amount) from August 2011 through October 2012, and was subordinated to our obligations under the Bridge Notes discussed above.

We recorded the promissory note at the present value of the payments over the subsequent periods which amounted to \$182,460. We amortized the discount using the effective interest method.

As of March 31, 2014 and December 31, 2013, the outstanding balances on the note payable were both \$-0-.

## Summary of Notes Payable and Accrued Interest

The following table summarizes our notes payable and accrued interest as of March 31, 2014 and December 31, 2013:

|   | Notes Payable     |                      | Accrued Interest  |                      |
|---|-------------------|----------------------|-------------------|----------------------|
|   | March 31,<br>2014 | December<br>31, 2013 | March 31,<br>2014 | December<br>31, 2013 |
| Bridge notes, net, as discussed above   | \$ -              | \$ -                 | \$ -              | \$ -                 |
| Convertible notes payable, net of discounts   | -                 | -                    | -                 | -                    |
| Unsecured (as amended) note payable due to our Company's former Chief Executive Officer, interest accrues at the rate of 9% compounded annually, all amounts due and payable December 31, 2008. Currently past due. | 20,000            | 20,000               | 17,769            | 16,943               |
| Note payable due to a trust, interest accrues at the rate of 10% per annum, all amounts due and payable December 31, 2006.  | -                 | -                    | -                 | -                    |
| Digimark, LLC subordinated promissory note, net, as discussed above.  | -                 | -                    | -                 | -                    |
| Notes payable   | 20,000            | 20,000               | 17,769            | 16,943               |
| Totals  | \$ 20,000         | \$ 20,000            | \$ 17,769         | \$ 16,943            |

## Interest Expense

The following table summarizes interest expense for the three months ended March 31, 2014 and 2013:

|  | Three months ended<br>March 31, |              |
|--|---------------------------------|--------------|
|  | 2014                            | 2013         |
| Amortization of note discounts           | \$ -                            | \$ 1,334,729 |
| Amortization of deferred financing costs | -                               | -            |
| Other interest expense                   | 826                             | 112,630      |

\$ 826 \$ 1,447,359

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## 7. Stockholders' Equity (Deficit)

## Common Stock

In March 2014 we issued 504,884 shares of common stock as part of the purchase price in the SmartReceipt acquisition which were valued at \$672,505 based on the closing market price on the acquisition date, see Note 3.

In March 2014 we issued 5,413,000 units of our securities at a price of \$1.00 per unit, for net proceeds of \$5,413,000. Each unit consisted of one share of common stock and one warrant with an exercise price of \$1.20.

At March 31, 2014, we had 22,237,762 shares of common stock outstanding.

## Equity Payable

We had an earn-out commitment associated with the acquisition of Boomtext from Digimark, LLC. The earn-out payment (payable March 31, 2013) consisted of a number of shares of our common stock equal to (a) 1.5, multiplied by our net revenue from acquired customers and customer prospects for the twelve-month period beginning six months after the closing date, divided by (b) the average of the volume-weighted average trading prices of our common stock for the 25 trading days immediately preceding the earn-out payment (subject to a collar of \$1.49 and \$2.01 per share).

In June 2013, the final value of the earn-out payment of \$2,210,667 was satisfied through the issuance of 1,483,669 shares of common stock. As of December 31, 2012, the estimated value of the earn-out payment of \$2,032,881 was recorded as a current liability.

In June 2013, we recorded equity payable of \$218,446 related to the additional share issuance obligations under the Bridge Notes. As discussed above under Common Stock and below under Warrants Issued to Note Holders and Placement Agent, we satisfied a portion of these obligations during the three months ended September 30, 2013 through the issuance of shares of common stock or warrants to purchase common stock.

## Stock-based Plans

## Stock Option Activity

The following table summarizes stock option activity for the three months ended March 31, 2014:

|                                  | Options   |
|----------------------------------|-----------|
| Outstanding at December 31, 2013 | 5,672,464 |
| Granted                          | 180,000   |
| Exercised                        | -         |
| Canceled/forfeited/expired       | (79,637)  |
| Outstanding at March 31, 2014    | 5,772,827 |

The weighted average exercise price of stock options granted during the period was \$1.40 and the related weighted average grant date fair value was \$1.26 per share.



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## Stock-Based Compensation Expense

The impact on our results of operations of recording stock-based compensation expense for the three months ended March 31, 2014 and 2013 was as follows:

|  | Three months ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2014                            | 2013      |
| General and administrative             | \$ 278,899                      | \$ 84,902 |
| Sales and marketing                    | 41,364                          | 7,618     |
| Engineering, research, and development | (4,884)                         | 982       |
|  | \$ 317,351                      | \$ 93,502 |

## Valuation Assumptions

An independent valuation expert calculated the fair value of each stock option award on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for the three months ended March 31, 2014 and 2013.

|                         | Three months ended<br>March 31, |        |
|-------------------------|---------------------------------|--------|
|                         | 2014                            | 2013   |
| Risk-free interest rate | 1.89%                           | 0.43%  |
| Expected life (years)   | 6.08                            | 2.82   |
| Expected dividend yield | 0%                              | 0%     |
| Expected volatility     | 132.0%                          | 122.0% |

The risk-free interest rate assumption is based upon published interest rates appropriate for the expected life of our employee stock options.

The expected life of the stock options represents the weighted-average period that the stock options are expected to remain outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

The dividend yield assumption is based on our history of not paying dividends and no future expectations of dividend payouts.

The expected volatility in 2014 is based on the historical publicly traded price of our common stock. The expected volatility prior to 2013 is based on the weighted average of the historical volatility of publicly traded surrogates in our peer group.

## Warrants Issued to Non-Employees

We issued warrants to purchase 150,556 shares of common stock to non-employees in 2010 and 2011. Prior to June 17, 2013, the warrants were accounted for as derivative liabilities because the equity environment was tainted as discussed in Note 5. The equity environment was no longer tainted as of June 17, 2013, and our independent valuation expert began calculating the stock-based compensation for these warrants using the Black-Scholes valuation model.

The valuation assumptions used are consistent with the valuation information for options above.

We recorded stock-based compensation expense of \$1,971 in general and administrative expense for the three months ended March 31, 2014.

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A summary of non-employee warrant activity under the 2010 Plan from December 31, 2013 to March 31, 2014 is presented below:

|                                  | Number<br>Outstanding |
|----------------------------------|-----------------------|
| Outstanding at December 31, 2013 | 150,556               |
| Granted                          | -                     |
| Exercised                        | -                     |
| Canceled/forfeited/expired       | (555)                 |
| Outstanding at March 31, 2014    | 150,001               |

## Warrants

During 2011, we issued warrants for the purchase of 688,669 shares of common stock at \$2.00 per share in connection with a private placement. During 2012, we issued warrants for the purchase of 153,515 shares of common stock at \$2.00 per share in connection with the conversion of a portion of our Bridge Notes. These warrants are exercisable for four years from the date of issuance, and contain anti-dilution, or down round, price protection as long as the warrants remain outstanding. The current exercise price of these warrants is \$0.20 per share as a result of the price protection guarantee contained in the warrant agreements.

In June 2013, we issued warrants for the purchase of 27,249,549 shares of common stock at \$0.20 per share in connection with the conversion of the Bridge Notes into equity. The warrants are exercisable for five years from the date of issuance.

In June 2013, we issued warrants for the purchase of 3,602,558 shares of common stock at \$0.20 per share to a placement agent connected with the Bridge Note conversions and equity placements. The warrants are exercisable for five years from the date of issuance.

In July 2013, we issued warrants for the purchase of 35,000 shares of common stock at \$0.20 per share to a placement agent connected with the equity placements. The warrants are exercisable for five years from the date of issuance.

In July 2013, we issued warrants for the purchase of 152,300 shares of common stock at \$0.20 per share to previous note holders in satisfaction of the ASID. The warrants are exercisable for three years from the date of issuance.

In July 2013, we issued warrants for the purchase of 53,069 shares of common stock at \$0.20 per share to an individual for services rendered.

In July 2013, we recorded the cashless exercise of warrants for 51,167 shares of common stock, and issued 32,825 shares of common stock.

In August 2013, we issued warrants for the purchase of 32,900 shares of common stock at \$0.20 per share to a placement agent connected with the Bridge Note conversions and equity placements. The warrants are exercisable for five years from the date of issuance.

In August 2013, we recorded the cashless exercise of warrants for 14,076 shares of common stock, and issued 9,986 shares of common stock.

In March 2014, we issued warrants for the purchase of 1,353,238 shares of common stock at \$1.20 per share in connection with equity financing.



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In March 2014, we issued warrants for the purchase of 370,686 common stock units at \$1.00 per unit to a placement agent in connection with the equity placements. Each unit consists of one share of the Company's common stock and a common stock purchase warrant to purchase one-quarter share of the Company's common stock, over a five year period, at an exercise price of \$1.20 per share. At March 31, 2014, the value of the 370,686 warrants was \$448,705. As part of the private placement share units issued, 1,353,238 warrants were issued to investors valued at \$1,320,569 which expire in 2019.

At March 31, 2014, we have warrants to purchase 7,019,840 shares of common stock at \$1.20 per share that are outstanding. Of this amount, warrants to purchase 86,949 shares expire in 2015, warrants to purchase 55,598 shares expire in 2016, warrants to purchase 5,153,358 shares expire in 2018, and warrants to purchase 1,723,935 shares expire in 2019.

## 8. Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions. This hierarchy requires companies to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, we measure certain financial assets and liabilities at fair value, including our derivative liabilities.

The following table presents assets and liabilities that are measured and recognized at fair value as of March 31, 2014 on a recurring and non-recurring basis:

| Description                      | Level 1 | Level 2 | Level 3      | Gains<br>(Losses) |
|----------------------------------|---------|---------|--------------|-------------------|
| Goodwill (non-recurring)         | \$ -    | \$ -    | \$ 5,999,765 | \$ -              |
| Intangibles, net (non-recurring) | \$ -    | \$ -    | \$ 3,315,083 | \$ -              |
| Derivatives (recurring)          | \$ -    | \$ -    | \$ 76,097    | \$ (30,079)       |
| Earn-out payable (non-recurring) | \$ -    | \$ -    | \$ 2,332,000 | \$ -              |

The following table presents assets and liabilities that are measured and recognized at fair value as of December 31, 2013 on a recurring and non-recurring basis:

| Description                      | Level 1 | Level 2 | Level 3      | Gains<br>(Losses) |
|----------------------------------|---------|---------|--------------|-------------------|
| Goodwill (non-recurring)         | \$ -    | \$ -    | \$ 3,108,964 | \$ 849,340        |
| Intangibles, net (non-recurring) | \$ -    | \$ -    | \$ 935,316   | \$ 491,204        |
| Derivatives (recurring)          | \$ -    | \$ -    | \$ 106,176   | \$ (3,766,231)    |
| Earn-out payable (non-recurring) | \$ -    | \$ -    | \$ 59,000    | \$ (165,000)      |

The change in fair value of these liabilities is included in other income (expense) in the condensed consolidated statements of operations. The assumptions used in the Monte-Carlo simulation used to value the derivative liabilities

involve expected volatility in the price of our common stock, estimated probabilities related to the occurrence of a future financing, and interest rates. As all the assumptions employed to measure this liability are based on management's judgment using internal and external data, this fair value determination is classified in Level 3 of the valuation hierarchy.

See Note 5 for a table that provides a reconciliation of the derivative liabilities from December 31, 2013 to March 31, 2014.

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9. Commitments and Contingencies

Litigation

As of the date of this report, there are no pending legal proceedings to which we or our properties are subject, except for routine litigation incurred in the normal course of business.

Earn-Out Contingency

We had an earn-out commitment associated with the acquisition of SmartReceipt. The earn-out consists of 200% of the “eligible revenue” of the Company over the 12 month period following the close of the transaction (“earn-out period”). The “eligible revenue” will consist of: 100% of Company revenue derived during the earn out period from the sale of SmartReceipt products and services to certain SmartReceipt clients as of the close (the “designated SmartReceipt clients”); plus 50% of Company revenue derived during the earn out period from the sale of Company products and services to the designated SmartReceipt clients, plus 50% of the Company revenue derived during the earn out period from the sale of SmartReceipt products and services to Company clients who are not designated SmartReceipt clients. The earn-out payment will be payable in common shares of the Company (valued at the Closing VWAP) no later than the 90th day following the end of the earn-out period. For purposes of the foregoing, the “Closing VWAP” means the volume weighted average trading price of the Company’s common stock for the 90 trading days preceding the initial close of the transactions under the Asset Purchase Agreement.

As of March 31, 2014, the estimated dollar value of the earn-out payable was \$2,273,000. As of March 31, 2014, the earn-out payable was recorded as a current liability, due to its one year term, on the consolidated balance sheet.

10. Related Party Transactions

In April 2013, we issued a new Bridge Note to our CFO totaling \$20,000 that contains the same rights and privileges as the previously issued new Bridge Notes, the due date of which was extended to October 15, 2013. The note and accrued interest were converted into 16,918 shares of common stock and he received five-year warrants to purchase 16,918 shares of common stock exercisable at \$1.20 per share.

In May 2013, we issued a new Bridge Note to our CEO totaling \$17,500 that contains the same rights and privileges as the previously issued and amended new Bridge Notes. The note and accrued interest were converted into 14,708 shares of common stock and he received five-year warrants to purchase 14,708 shares of common stock exercisable at \$1.20 per share.

On June 17, 2013 the Company issued to Dennis Becker an option to purchase 1,251,979 shares of Company common stock. The exercise price of the option is \$1.80, the fair market value on date of grant. The options will vest and first become exercisable over a four year period at the rate of 1/48th shares per month commencing on the first month following the date of grant. On June 17, 2013 the Company issued to Timothy Schatz an option to purchase 417,326 shares of Company common stock. The exercise price of the option is \$1.80, the fair market value on date of grant. The options will vest and first become exercisable over a four year period at the rate of 1/48th shares per month commencing on the first month following the date of grant.

On March 12, 2014 several officers and directors participated in the Private Placement. Dennis Becker purchased 25,000 units at a price of \$1.00 per unit, resulting in issuance of 25,000 common shares and 6,250 warrants with an exercise price of \$1.20 per share. Michael Bynum purchased 25,000 units at a price of \$1.00 per unit, resulting in issuance of 25,000 common shares and 6,250 warrants with an exercise price of \$1.20 per share. David Jaques purchased 25,000 units at a price of \$1.00 per unit, resulting in issuance of 25,000 common shares and 6,250 warrants

with an exercise price of \$1.20 per share. John Harris purchased 25,000 units at a price of \$1.00 per unit, resulting in issuance of 25,000 common shares and 6,250 warrants with an exercise price of \$1.20 per share.

#### 11. Subsequent Events

There were no subsequent events through the date that the financial statements were issued.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, in connection with the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. Such forward-looking statements include statements about our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made and are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," or "will," expressions or variations. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those risks disclosed in this report, under the caption "Risk Factors" included in our 2013 annual report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 31, 2014 and in our subsequent filings with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Overview

We are in the business of developing and operating proprietary platforms over which resellers, brands and enterprises can conduct localized mobile marketing campaigns. Our proprietary platforms allow resellers, brands and enterprises to market their products and services to consumers through text messages sent directly to the consumers' mobile phones, mobile device applications (which consists of software available to both phones and tablet PCs. We generate revenue by charging the brands and enterprises a per-message transactional fee, or through fixed or variable software licensing fees. Our customers include national franchisers, professional sports teams and associations and other national brands such as the Los Angeles Clippers, Dallas Cowboys, Chick-Fil-A, Jamba Juice, and others.

Mobile phone users represent a large and captive audience. While televisions, radios, and even PCs are often shared by multiple consumers, mobile phones are personal devices representing a unique and individual address to the end user. We believe that the future of digital media will be significantly influenced by mobile phones where a direct, personal conversation can be had with the world's largest target audience. According to a report published by International Data Corporation (IDC), by 2015, more U.S. Internet users will access the Internet through mobile devices than through PCs or other wireline devices (Worldwide New Media Market Model 1H-2012 Highlights: Internet Becomes Ever More Mobile, Ever Less PC-Based (IDC #237459)). The IDC study further reports that the number of people accessing the Internet, in the U.S., through PCs will shrink from 240 million consumers in 2012 to 225 million in 2016. At the same time, the number of mobile users will increase from 174 million to 265 million.. We believe the future of mobile applications and services includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life.

Our "C4" Mobile Marketing and Customer Relationship Management (CRM) platform is a Web-hosted software solution enabling our clients to develop, execute, and manage a variety of marketing engagements to a consumer's mobile phone. Our C4 solution allows our clients to communicate directly with their customers through Short Messaging Service (SMS), Multi-Media Messaging (MMS), and Interactive Voice Response (IVR) interactions, all of which are facilitated via a set of Graphical User Interfaces (GUIs) operated from any Web browser.

Our C4 platform also allows our customers to deploy and administer our “Stampt” mobile device loyalty application. Stampt is a smartphone replacement for “Buy 10, Get 1 free” punch cards. Consumers no longer need to worry about forgetting paperbased loyalty punch cards. Stampt makes it easy to receive all of the rewards consumers want from their favorite businesses. Consumer’s can use Stampt throughout the United States to earn free sandwiches, coffee, pizza, frozen yogurt, donuts, bagels and more.

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Stampt's nearby feature shows consumers all of the rewards they can earn at nearby businesses. From the Stampt mobile device application, consumers simply tap any business to learn more about that business and to see all of the loyalty points they have earned at that business. Consumers can keep track of all of the rewards they are close to earning through the "my cards" feature displayed in the application's interface. Once a consumer has earned all of the Stampt's they need for a reward, they simply show the cashier and click "tap to redeem" button from the application interface on their device. Our customers can create and manage any Stampt program from the C4 platform's set of Web-based interfaces.

We also offer our clients reporting and analytics capabilities through the C4 solution which allows our clients to assess the effectiveness of their mobile marketing campaigns and design more effective campaigns. Our proprietary platform connects to all wireless carriers so that any consumer, on any wireless service (for example, Verizon), can join our customer's mobile marketing campaign. Once the consumer has subscribed to our customer's mobile marketing campaign, our C4 Web-based software solution serves as a tool by which our customers can initiate messages and other communications back to their subscribed consumers, as well as configure and administer their mobile marketing campaigns.

Our SmartReceipt solution enables our customers with the ability to control the content on receipts printed from their Point of Sale (POS) system. SmartReceipt is a software application that is installed on the POS which dynamically controls what is printed on receipts such as coupons, announcements, or other calls-to-action such as invitations to participate in a survey. SmartReceipt includes a Web-based interface where users can design receipt content and implement business rules to dictate what receipt content is printed in particular situations. All receipt content is also transmitted to SmartReceipt's server back-end for storage and analysis. Our C4 solution integrates with SmartReceipt by support SMS marketing or Stampt mobile application calls-to-actions which can be printed on receipt content by SmartReceipt.

We believe that mobile devices are emerging as an important interactive channel for brands to reach consumers since it is the only media platform that has access to the consumer virtually anytime and anywhere. According to eMarketer's article, published August 1, 2013 (<http://www.emarketer.com/Article/Digital-Set-Surpass-TV-Time-Spent-with-US-Media/1010096>), U.S. adults now spend more time on their mobile device than any other digital channel such as PCs. eMarketer also reports that U.S. adults already spend more time on their mobile phone than viewing print or listening to radio combined. We believe that brands and advertising agencies are recognizing the unique benefits of the mobile channel and they are increasingly integrating mobile media within their overall advertising and marketing campaigns. Our objective is to become the industry leader in connecting brands and enterprises to consumers' mobile phones.

## Recent Events

### Reverse Stock Split

On November 12, 2013, we effected a 1 for 6 reverse stock split of our authorized common stock and reduced our authorized common stock to 50,000,000 shares. The number of shares outstanding has been adjusted retrospectively to reflect the reverse stock split in all periods presented. Also, all share prices, including the exercise price and the number of common shares issuable under our share-based compensation plans and warrants, have been adjusted retrospectively to reflect the reverse stock split.

## Acquisitions

In March 2014, we acquired the assets of SmartReceipt, Inc ("SmartReceipt") related to an application that allows our customers to control content printed on receipts generated by their Point-Of-Sale (POS) system. The assets and

liabilities acquired from SmartReceipt consisted of accounts receivable, other assets, all rights under all contracts other than excluded contracts, all technology and intellectual property rights, deferred revenue obligations, and obligations under a commercial lease.

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The purchase price consisted of (1) \$2,368,019 of cash, (2) the Company's issuance of 504,884 shares of its \$0.001 par value common stock; and (3) the Company's earn-out payment of 200% of the "eligible revenue" of the Company over the 12 month period following the close of the transaction ("earn-out period"). The "eligible revenue" will consist of: 100% of Company revenue derived during the earn out period from the sale of SmartReceipt products and services to certain SmartReceipt clients as of the close (the "designated SmartReceipt clients"); plus 50% of Company revenue derived during the earn out period from the sale of Company products and services to the designated SmartReceipt clients, plus 50% of the Company revenue derived during the earn out period from the sale of SmartReceipt products and services to Company clients who are not designated SmartReceipt clients. The earn-out payment will be payable in common shares of the Company (valued at the Closing VWAP) no later than the 90th day following the end of the earn-out period. For purposes of the foregoing, the "Closing VWAP" means the volume weighted average trading price of the Company's common stock for the 90 trading days preceding the initial close of the transactions under the Asset Purchase Agreement.

In May 2013, we acquired the assets of Sequence, LLC ("Sequence") related to a mobile customer loyalty application. The acquired assets include all application software, URL's, websites, trademarks, brands, customers and customer lists. We assumed no liabilities of Sequence.

The purchase price consisted of: (1) \$300,000 in cash; (2) 750,000 shares of our common stock which were valued at \$183,750 based on the closing market price on the acquisition date; and (3) twenty-four monthly earn-out payments consisting of 10% of the eligible monthly revenue subsequent to closing.

Also in May 2013, we acquired certain assets and liabilities of Front Door Insights, LLC ("FDI") pursuant to an asset purchase agreement. The assets and liabilities acquired from FDI consisted of cash on hand, accounts receivable, all rights under all contracts other than excluded contracts, prepaid expenses, all technology and intellectual property rights, accounts payable, and obligations under a commercial lease.

The purchase price consisted of: (1) \$100,000 in cash; (2) a promissory note in the principal amount of \$1,400,000; and (3) 7,000,000 shares of our common stock which were valued at \$1,112,310 based on the closing market price on the acquisition date.

### Private Placement and Conversion of Bridge Notes

On March 10, 2014, the Company entered into a Securities Purchase Agreement and a Registration Rights Agreement with certain accredited investors in connection with a proposed private placement of up to 6,000,000 units of the Company's securities at a price of \$1.00 per unit for the gross proceeds of up to \$6,000,000. Each unit consists of one share of the Company's common stock and a common stock purchase warrant to purchase one-quarter share of the Company's common stock, over a five year period, at an exercise price of \$1.20 per share. The Securities Purchase Agreement includes customary representations, warranties, and covenants by the investors and the Company, and an indemnity from the Company. Pursuant to the terms of the Registration Rights Agreement, the Company agreed to cause a resale registration statement covering the common shares made part of the units to be filed by May 15, 2014. The Registration Rights Agreement also provides that the Company must make certain payments as liquidated damages to the investors if it fails to timely file the registration statement and cause it to become effective. The units were issued pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act and Rule 506(b) thereunder. Emerging Growth Equities, Ltd. ("EGE") acted as placement agent for the private placement and received \$370,635 in commissions and \$78,000 in other fees from the Company. In addition, for its services as placement agent, the Company issued to EGE warrants to purchase an aggregate of 345,835 units, as defined above, exercisable for a period of five years from the closing date, at an exercise price of \$1.00 per unit.

An initial closing of the units was completed on March 12, 2014. As of March 28, 2014, the Company has sold 5,413,000 units for the gross proceeds of \$5,413,000.

In June 2013, we sold 6,130,000 shares of our common stock at \$1.20 per share and received net proceeds of \$6,789,685. We also converted all of our outstanding Bridge Notes and substantially all of our interest payable on the Bridge Notes into 4,462,089 shares of our common stock at \$1.20 per share. We no longer have any Bridge Notes outstanding.

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In August 2013, we completed the full amount authorized in the private placement of \$7,500,000 by selling the remaining 720,000 shares of our common stock at \$0.20 per share and received net proceeds of \$107,492.

### Results of Operations

#### Revenues

Revenues for the three months ended March 31, 2014 were \$903,215, a decrease of \$124,778, or 12.1%, compared to the same period in 2013. The net decrease is primarily attributable to a decrease of \$174,722, or 49.8% in revenues from large enterprise accounts and non-recurring or one-time events, and loss of \$10,759, or 1.6%, of subscriber based licensing. The loss of subscribers was primarily due to new regulation put in place under the Telephone Consumer Protection Act ("TCPA) in October, 2013. These decreases were offset by \$58,924 in revenues from our recent acquisition of SmartReceipt.

#### Cost of Revenues

Cost of revenues for the three months ended March 31, 2014 was \$260,893, a decrease of \$23,729, or 8.3% compared to the same period in 2013. This decrease is primarily attributable to lower SMS fees, sales commissions, and credit card merchant fees. SMS fees decreased 27.9% to \$74,638 as compared to same period in 2013 due to further reduction in negotiated volume discount, and reduced overall SMS volume. Sales commissions decreased 12.1% to \$44,962 due to reduced large enterprise and non-recurring revenues, a smaller outside sales team, and other minor factors.

#### General and Administrative

General and administrative expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses.

General and administrative expenses increased \$597,325, or 112.1%, during the three months ended March 31, 2014 compared to the same period in 2013. The increase in general and administrative expense was primarily due to increased personnel expenses, share based compensation, and one-time non-capitalizable expenses related to acquisition of SmartReceipt. Personnel related expenses increased \$113,205, and share based compensation increased \$195,968, due to increased management and support headcount as compared to the same period in 2013. One time costs associated with auditing, consulting, and some legal fees for the SmartReceipt acquisition were \$174,770.

#### Sales and Marketing

Sales and marketing expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, sales travel, consulting costs and other expenses

Sales and marketing expenses increased \$578,189, or 159.33%, during the three months ended March 31, 2014 compared to the same period in 2013. The increase was primarily due to higher personnel expenses, share based compensation expenses, and travel expenses resulting from increase in sales personnel as compared to the same period in 2013. Personnel related expenses increased \$360,082, share based compensation increased \$32,381, and sales related travel & entertainment expenses increased \$98,977.

#### Depreciation and Amortization

Depreciation and amortization expense consists of depreciation on our equipment and amortization of our intangible assets.

Depreciation and amortization expense increased \$34,269, or 101.3%, during the three months ended March 31, 2014 compared to the same period in 2013.

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The amortizable base of our intangible assets was higher in the 2014 periods than the 2013 periods because of the acquisitions we recorded in May 2013 and March 2014.

## Interest Expense

Interest expense consists of stated or implied interest expense on our notes payable, amortization of note discounts, and amortization of deferred financing costs.

Interest expense decreased \$1,446,533, or 100%, during the three months ended March 31, 2014 compared to the same period in 2013. We converted substantially all of our debt into equity in June 2013.

## Change in Fair Value of Derivative Liabilities

The change in fair value of derivative liabilities for the three months ended March 31, 2014 and 2013 was a loss of \$30,079 and a gain of \$1,001,550, respectively. The value of the derivative liabilities at any given date is based primarily on the value and volatility of our common stock, among other less significant factors. In periods when our stock price or volatility rises, we expect to record a loss in the change in fair value of the derivative liabilities. The conversion of convertible notes payable into common shares in June 2013, reducing the number of warrants subject to derivative liability treatment, significantly reduced our ongoing exposure to derivative liability valuation.

## Liquidity and Capital Resources

As of March 31, 2014, we had current assets of \$4,554,625, including \$3,984,032 in cash, and current liabilities of \$3,767,725, resulting in working capital of \$786,900.

As of the date of this report, we believe we have working capital on hand to fund our current level of operations through, at least, the next 12 months. However, there can be no assurance that we will not require additional capital within the next 12 months. If we require additional capital, we will seek to obtain additional working capital through the sale of our securities and, if available, bank lines of credit. However, there can be no assurance we will be able to obtain access to capital as and when needed and, if so, the terms of any available financing may not be subject to commercially reasonable terms.

## Cash Flows

|                                 | Period ended March 31, |           |
|---------------------------------|------------------------|-----------|
|                                 | 2014                   | 2013      |
| Net cash provided by (used in): |                        |           |
| Operating activities            | \$(1,162,767)          | \$60,489  |
| Investing activities            | (2,390,244)            | (195,630) |
| Financing activities            | 4,964,358              | 178,960   |
| Net change in cash              | \$1,411,347            | \$43,819  |

## Investing Activities

Investing activities during the three months ended March 31, 2014 include \$2,368,019 in cash consideration used in our acquisitions during the period.

## Financing Activities

Financing activities for the three months ended March 31, 2014 include net proceeds from the sale of common stock units of \$5,413,000.

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### Critical Accounting Policies and Estimates

Refer to Note 2, “Summary of Significant Accounting Policies,” in the accompanying notes to the condensed consolidated financial statements for a discussion of recent accounting pronouncements.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are a smaller reporting company as defined by section 10(f)(1) of Regulation S-K. As such, we are not required to provide the information set forth in this item.

### Item 4. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our management, including our chief executive officer and chief financial officer, concluded that as of March 31, 2014 our disclosure controls and procedures were not effective due to existing material weaknesses in our internal control over financial reporting, as described below.

In connection with our evaluation of our internal control over financial reporting as of December 31, 2013, we determined that there were control deficiencies that constituted material weaknesses which are indicative of many small companies with small staff, including:

- (1) Inadequate segregation of duties and effective risk assessment;
- (2) Insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both generally accepted accounting principles in the United States and guidelines of the SEC; and
- (3) Inadequate closing processes to ensure all material misstatements are corrected in the financial statements, as evidenced by the fact that there were audit adjustments and restatements of our financial statements.

#### Changes in Internal Control

There were no changes in our internal control over financial reporting during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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## Item 6. Exhibits

| Exhibit No. | Description  | Method of Filing   |
|-------------|--|--|
| 4.1         | Form of Common Stock Purchase Warrant sold pursuant to Securities Purchase Agreement dated March 10, 2014 between the Registrant and the investors named therein | Filed as Exhibit to Current Report on Form 8-K filed on March 18, 2014 |
| 10.1        | Asset Purchase Agreement dated March 12, 2014 between the Registrant and SmartReceipt, Inc.  | Filed as Exhibit to Current Report on Form 8-K filed on March 18, 2014 |
| 10.2        | Form of Securities Purchase Agreement dated March 10, 2014 between the Registrant and the investors named therein  | Filed electronically herewith  |
| 10.3        | Form of Registration Rights Agreement dated March 10, 2014 between the Company and the investors named therein   | Filed electronically herewith  |
| 31.1        | Certification by Chief Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002   | Filed electronically herewith  |
| 31.2        | Certification by Chief Financial Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002   | Filed electronically herewith  |
| 32.1        | Certification Pursuant to 18 U.S.C. Section 1350   | Filed electronically herewith  |
| 101.INS     | XBRL Instance Document*  | Filed electronically herewith  |
| 101.SCH     | XBRL Taxonomy Schema Document*   | Filed electronically herewith  |
| 101.CAL     | XBRL Taxonomy Calculation Linkbase Document*   | Filed electronically herewith  |
| 101.DEF     | XBRL Taxonomy Definition Linkbase Document*  | Filed electronically herewith  |
| 101.LAB     | XBRL Taxonomy Label Linkbase Document*   | Filed electronically herewith  |
| 101.PRE     | XBRL Taxonomy Presentation Linkbase Document*  | Filed electronically herewith  |

\* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURES

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

Mobivity Holdings Corp.

Date: May 15, 2014

By:

/s/ Dennis Becker  
Dennis Becker  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 15, 2014

By:

/s/ Timothy Schatz  
Timothy Schatz  
Chief Financial Officer  
(Principal Accounting  
Officer)