MOBIVITY HOLDINGS CORP.
Form 10-Q
May 14, 2018

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, 2018

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	26-3439095

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

55 N. Arizona Place, Suite 310

Chandler, Arizona 85225

(Address of Principal Executive Offices & Zip Code)

(877) 282-7660

(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging Company

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

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

As of May 8, 2018, the registrant had 39,057,573 shares of common stock issued and outstanding.

MOBIVITY HOLDINGS CORP.

TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Mobivity Holdings Corp.

Condensed Consolidated Balance Sheets

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets		
Cash	$ 419,373	$ 460,059
Accounts receivable, net of allowance for doubtful accounts of $1,189 and $2,280, respectively	1,457,634	885,743
Other current assets	202,412	209,536
Total current assets	2,079,419	1,555,338
Goodwill	803,118	803,118
Intangible assets, net	600,296	676,436
Accounts receivable, long term	824,272	-
Other assets	91,124	88,916
TOTAL ASSETS	$ 4,398,229	$ 3,123,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,148,953	$ 1,096,003
Accrued interest	15,083	1,168
Accrued and deferred personnel compensation	761,805	590,500
Deferred revenue and customer deposits	1,602,711	1,429,266
Notes payable, net - current maturities	170,592	2,236,224
Other current liabilities	429,789	226,355
Total current liabilities	4,128,933	5,579,516
Non-current liabilities		
Notes payable, net - long term	1,423,495	180,810
Other long term liabilities	582,626	-
Total non-current liabilities	2,006,121	180,810
Total liabilities	6,135,054	5,760,326
Commitments and Contingencies (See Note 9)		
Stockholders' equity		
	39,058	37,025

Common stock, $0.001 par value; 100,000,000 shares authorized; 39,057,573 and 37,025,140, shares issued and outstanding		
Equity payable	100,862	100,862
Additional paid-in capital	80,325,094	77,910,842
Accumulated other comprehensive loss	(78,379)	(65,764)
Accumulated deficit	(82,123,460)	(80,619,483)
Total stockholders' equity	(1,736,825)	(2,636,518)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,398,229	$ 3,123,808

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents

Mobivity Holdings Corp.

Condensed Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Three Months Ended March 31, 2018	2017
Revenues		
Revenues	$ 3,693,328	$ 2,113,283
Cost of revenues	793,389	557,388
Gross profit	2,899,939	1,555,895
Operating expenses		
General and administrative	1,248,343	1,015,418
Sales and marketing	1,461,580	1,208,785
Engineering, research, and development	1,531,598	589,322
Depreciation and amortization	96,970	68,746
Total operating expenses	4,338,491	2,882,271
Loss from operations	(1,438,552)	(1,326,376)
Other income/(expense)		
Interest income	456	904
Interest expense	(57,489)	(21,106)
Gain on sale of fixed assets	(8,722)	-
Foreign currency (loss) gain	330	(2,648)
Total other income/(expense)	(65,425)	(22,850)
Loss before income taxes	(1,503,977)	(1,349,226)
Income tax expense	-	-
Net loss	(1,503,977)	(1,349,226)
Other comprehensive loss, net of income tax		
Foreign currency translation adjustments	(12,615)	(5,221)
Comprehensive loss	$ (1,516,592)	$ (1,354,447)
Net loss per share - basic and diluted	$ (0.04)	$ (0.04)
Weighted average number of shares		
during the period - basic and diluted	38,018,733	36,388,997

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents

Mobivity Holdings Corp.

Consolidated Statement of Stockholders' Equity

	Common Stock Shares	Common Stock Dollars	Equity Payable	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance, December 31, 2016	36,388,997	$ 36,389	$ 100,862	$ 76,698,383	$ (32,999)	$ (74,673,471)	2,129,164
Issuance of common stock for options exercised	152,085	152	-	82,646	-	-	82,798
Issuance of common stock for restricted stock awards	484,058	484	-	(484)	-	-	-
Stock based compensation	-	-	-	1,130,297	-	-	1,130,297
Foreign currency translation adjustment	-	-	-	-	(32,765)	-	(32,765)
Net loss	-	-	-	-	-	(5,946,012)	(5,946,012)
Balance, December 31, 2017	37,025,140	$ 37,025	$ 100,862	$ 77,910,842	$ (65,764)	$ (80,619,483)	$ (2,636,518)
Issuance of common stock for warrant conversion	2,018,125	2,018	-	2,151,829	-	-	2,153,847
Issuance of common stock for cashless warrant conversion	1,808	2	-	(2)	-	-	-
Issuance of common stock	12,500	13	-	9,582	-	-	9,595

for options exercised							
Stock based compensation	-	-	-	252,843	-	-	252,843
Foreign currency translation adjustment	-	-	-	-	(12,615)	-	(12,615)
Net loss	-	-	-	-	-	(1,503,977)	(1,503,977)
Balance, March 31, 2018	39,057,573	$ 39,058	$ 100,862	$ 80,325,094	$ (78,379)	$ (82,123,460)	$ (1,736,825)

See accompanying notes to these unaudited condensed consolidated financial statements.

3

Table of Contents

Mobivity Holdings Corp.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2018	2017
OPERATING ACTIVITIES		
Net loss	$ (1,503,977)	$ (1,349,226)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	-	(9,787)
Amortization of deferred financing costs	-	4,245
Stock-based compensation	252,842	337,417
Amortization of debt discount	7,786	-
Loss on disposal of fixed assets	8,722	-
Depreciation and amortization expense	96,970	68,746
Adjustments due to ASC 606	(713,568)	-
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	265,936	1,140,079
Other current assets	4,151	(42,760)
Other assets	264	225
Accounts payable	41,690	(59,548)
Accrued interest	13,915	1,999
Accrued and deferred personnel compensation	149,156	(93,297)
Other liabilities - non-current	58,474	-
Other liabilities - current	(185,652)	(8,529)
Deferred revenue and customer deposits	166,750	247,289
Net cash provided by (used in) operating activities	(1,336,541)	236,853
INVESTING ACTIVITIES		
Purchases of equipment	(18,078)	(2,490)
Cash paid for patent	-	(6,549)
Capitalized software development costs	(13,948)	(246,178)
Net cash used in investing activities	(32,026)	(255,217)
FINANCING ACTIVITIES		
Payments on notes payable	(1,902,947)	-
Deferred financing costs	-	(15,000)
Proceeds from notes payable	1,080,000	53,051

Proceeds from issuance of common stock, net of issuance costs	2,163,443	-
Net cash provided by financing activities	1,340,496	38,051
Effect of foreign currency translation on cash flow	(12,615)	(1,152)
Net change in cash	(40,686)	18,535
Cash at beginning of period	460,059	1,188,485
Cash at end of period	$ 419,373	$ 1,207,020
Supplemental disclosures:		
Cash paid during period for:		
Interest	$ 57,489	$ 52,960
Non cash investing and financing activities:		
Issuance of common stock for cashless exercise	$ 2	$ -

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents

Mobivity Holdings Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Basis of Presentation

Mobivity Holdings Corp. (the “Company” or “we”) is in the business of developing and operating proprietary platforms over which brands and enterprises can conduct national and localized, data-driven mobile marketing campaigns. Our proprietary platforms, consisting of software available to phones, tablets, PCs, and Point of Sale (“POS”) systems, allow resellers, brands and enterprises to market their products and services to consumers through text messages sent directly to consumers via mobile phones, mobile smartphone applications, and dynamically printed receipt content. On January 15, 2016, we completed the acquisition of LiveLenz Inc., a Nova Scotia corporation (“LiveLenz”), a wholly-owned subsidiary. We generate revenue by charging the resellers, brands and enterprises a per-message transactional fee, through fixed or variable software licensing fees, or via advertising 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 audited consolidated financial statements and notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on April 11, 2018.

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, 2018, and for the three months ended March 31, 2018 and 2017. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the operating results for the full year ending December 31, 2018.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

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, 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.

Accounts Receivable, Allowance for Doubtful Accounts and Concentrations

Accounts receivable are carried at their estimated collectible amounts. We grant unsecured credit to substantially all of our customers. Ongoing credit evaluations are performed and potential credit losses are charged to operations at the time the account receivable is estimated to be uncollectible. Since we cannot necessarily predict future changes in the financial stability of our customers, we cannot guarantee that our reserves will continue to be adequate.

As of March 31, 2018 and December 31, 2017, we recorded an allowance for doubtful accounts of $1,189 and $2,280 respectively.

Goodwill and Intangible Assets

Goodwill is tested for impairment at a minimum on an annual basis. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using market and discounted cash flow approaches. Goodwill is

Table of Contents

considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow approach uses expected future operating results. Failure to achieve these expected results may cause a future impairment of goodwill at the reporting unit.

Intangible assets consist of patents and trademarks, purchased customer contracts, purchased customer and merchant relationships, purchased trade names, purchased technology, non-compete agreements, and software development costs. Intangible assets are amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from one to twenty years. No significant residual value is estimated for intangible assets.

Software Development Costs

Software development costs include direct costs incurred for internally developed products and payments made to independent software developers and/or contract engineers. The Company accounts for software development costs in accordance with the FASB guidance for the costs of computer software to be sold, leased, or otherwise marketed (“ASC Subtopic 985-20”). Software development costs are capitalized once the technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product encompasses technical design documentation and integration documentation, or the completed and tested product design and working model. Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable against future revenues. Technological feasibility is evaluated on a project-by-project basis. Amounts related to software development that are not capitalized are charged immediately to the appropriate expense account. Amounts that are considered ‘research and development’ that are not capitalized are immediately charged to engineering, research, and development expense.

Capitalized costs for those products that are cancelled or abandoned are charged to product development expense in the period of cancellation. Commencing upon product release, capitalized software development costs are amortized to “Amortization Expense - Development” based on the straight-line method over a twenty-four month period.

The Company evaluates the future recoverability of capitalized software development costs on an annual basis. For products that have been released in prior years, the primary evaluation criterion is ongoing relations with the customer.

Impairment of Long-Lived Assets

We evaluate long-lived assets (including intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the undiscounted future net cash flow the asset is expected to generate.

Foreign Currency Translation

The Company translates the financial statements of its foreign subsidiary from the local (functional) currency into US Dollars using the year or reporting period end or average exchange rates in accordance with the requirements of Accounting Standards Codification subtopic 830-10, Foreign Currency Matters (“ASC 830-10”). Assets and liabilities of these subsidiaries were translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive gain (loss) within shareholders’ equity. Foreign currency transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the unaudited Condensed Consolidated Statements of Income and Comprehensive Income.

Revenue Recognition and Concentrations

Our re•ceipt and re•ach and customer relationship management are hosted solutions. We generate revenue from licensing our software to clients in our software as a service model, per-message and per-minute transactional fees, and customized professional services. We recognize license/subscription 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. Some customers are billed on a month-to-month basis with no contractual term and are collected by credit card. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. Cash received in advance of the performance of services is recorded as deferred revenue.

During the three months ended March 31, 2018, two customers accounted for 66% of our revenues. During the three months ended March 31, 2017, one customer accounted for 69% of our revenues.

Table of Contents

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, 2018 and 2017, the comprehensive loss was $1,516,592 and $1,354,447, respectively.

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 months ended March 31, 2018 and 2017, 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 February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842)”. Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. The Company elected to early adopt the new guidance in the second quarter of fiscal year 2016 which requires us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of additional stock compensation expense and paid-in capital for all periods in fiscal year 2016. Additional amendments to the recognition of excess tax benefits, accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings as of January 1, 2016, where the cumulative effect of these changes are required to be recorded. We have elected to account for forfeitures as they occur to determine the amount of compensation cost to be recognized in each period.

In May 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, “Revenue from Contracts with Customers.” ASU 2014-09 provides principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 to defer the effective date by one year with early adoption permitted as of the original effective date. ASU 2014-09 will be effective for our fiscal year beginning January 1, 2018 unless we elect the earlier date of January 1, 2017. In addition, the FASB issued ASU 2016-08, ASU 2016-10, and ASU 2016-12 in March 2016, April 2016, and May 2016, respectively, to help provide interpretive clarifications on the new guidance in ASC Topic 606. The Company is currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which removes the second step of the two-step goodwill impairment test. Under ASU 2017-04, an entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 does not amend the optional qualitative assessment of goodwill impairment. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019; early adoption is permitted for interim or annual goodwill impairment tests performed

Table of Contents

on testing dates after January 1, 2017. The Company is currently in the process of evaluating the impact of adopting ASU 2017-04 and cannot currently estimate the financial statement impact of adoption.

3. New Accounting Standards

Revenue from Contracts with Customers.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers ("ASC 606"), which creates a single source of revenue guidance under U.S. GAAP for all companies in all industries and replaces most existing revenue recognition guidance in U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services.

Our transition to ASC 606 represents a change in accounting principle. ASC 606 eliminates industry-specific guidance and provides a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of ASC 606 is that a reporting entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the reporting entity expects to be entitled for the exchange of those goods or services.

The Company adopted the new standard in the first quarter of its fiscal 2018, using the modified retrospective method. The Company implemented internal controls and key system functionality to enable the preparation of financial information on adoption. The most significant impacts of the adoption of ASC 606 to the Company relate to the acceleration of revenue recognition for sales of custom products subject to a non-cancellable customer purchase orders.

The new standard will primarily impact the Company's revenue recognition for software arrangements. In this area, the new standard will accelerate the recognition of revenue. The table below details both the current and expected revenue recognition timing in these areas:

Software arrangements:	Past revenue standard	New ASC 606 revenue standard
Perpetual software licenses	Upfront	Upfront
Enterprise license agreements	Ratable	Upfront

Software support	Ratable