MOBIVITY HOLDINGS CORP.
Form 10-Q
November 14, 2014

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

For the transition period from ___________ to __________

Commission file number 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.)

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 [X] No [ ]

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]

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

As of November 14, 2014, the registrant had 22,748,193 shares of common stock issued and outstanding.

MOBIVITY HOLDINGS CORP.
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Part I - Financial Information

Item 1. Financial Statements

Mobivity Holdings Corp.
Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current assets		
Cash	$ 1,773,122	$ 2,572,685
Accounts receivable, net of allowance for doubtful accounts of $125,048 and $65,975, respectively	353,459	280,667
Other current assets	119,336	140,114
Total current assets	2,245,917	2,993,466
Goodwill	5,999,765	3,108,964
Intangible assets, net	3,086,620	935,316
Other assets	98,142	63,944
TOTAL ASSETS	$ 11,430,444	$ 7,101,690
LIABILITIES AND STOCKHOLDERS' EQUITY)		
Current liabilities		
Accounts payable	$ 487,852	$ 543,648
Accrued interest	19,505	16,943
Accrued and deferred personnel compensation	230,716	191,041
Deferred revenue and customer deposits	188,574	136,523
Notes payable	20,000	20,000
Derivative liabilities	50,738	106,176
Other current liabilities	22,447	36,372
Earn-out payable	2,332,000	34,755
Total current liabilities	3,351,832	1,085,458
Non-current liabilities		
Earn-out payable	-	24,245
Total non-current liabilities	-	24,245
Total liabilities	3,351,832	1,109,703
Commitments and Contingencies (See Note 9)		
Stockholders' equity		
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	307,745	108,170
Additional paid-in capital	60,965,807	54,452,697
Accumulated deficit	(53,217,178)	(48,585,200)
Total stockholders' equity	8,078,612	5,991,987

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	11,430,444	$	7,101,690

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

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Mobivity Holdings Corp.
Consolidated Statements of Operations
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues				
Revenues	$ 1,044,254	$ 1,035,952	$ 3,057,360	$ 3,149,555
Cost of revenues	272,252	268,507	791,486	864,519
Gross margin	772,002	767,445	2,265,874	2,285,036
Operating expenses				
General and administrative	916,322	1,324,354	2,900,711	2,644,678
Sales and marketing	828,333	1,491,563	2,723,979	3,289,904
Engineering, research, and development	344,322	214,374	1,026,120	465,614
Depreciation and amortization	116,309	89,133	300,273	181,262
Total operating expenses	2,205,286	3,119,424	6,951,083	6,581,458
Loss from operations	(1,433,284)	(2,351,979)	(4,685,209)	(4,296,422)
Other income/(expense)				
Interest income	132	385	2,034	406
Interest expense	(883)	(807)	(2,563)	(6,347,360)
Change in fair value of derivative liabilities	(2,354)	(51,913)	55,438	(3,865,511)
Gain (loss) on adjustment in contingent consideration	-	-	-	(193,464)
Total other income/(expense)	(3,105)	(52,335)	54,909	(10,405,929)
Loss before income taxes	(1,436,389)	(2,404,314)	(4,630,300)	(14,702,351)
Income tax expense	(1,678)	-	(1,678)	-
Net loss	$ (1,438,067)	$ (2,404,314)	$ (4,631,978)	$ (14,702,351)
Net loss per share - basic and diluted	$ (0.06)	$ (0.15)	$ (0.22)	$ (1.69)
Weighted average number of shares during the period - basic and diluted	22,237,762	16,215,030	20,672,880	8,707,839

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 Stockholders'
	Shares	Dollars	Payable	Paid-in Capital	Deficit	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 $435,871	5,413,000	5,413		4,971,717		4,977,130
Issuance of common stock for acquisition	504,884	505		672,000		672,505
Stock based compensation			199,575	869,393		1,068,968
Net loss					(4,631,978)	(4,631,978)
Balance, September 30, 2014	22,237,762	$ 22,238	$ 307,475	$ 60,965,807	$ (53,217,178)	$ 8,078,612

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

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

	Nine months ended September 30,	
	2014	2013
OPERATING ACTIVITIES		
Net loss	$ (4,631,978)	$ (14,702,351)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense	37,687	10,843
Common stock payable for services	199,575	86,006
Stock-based compensation	869,394	2,349,832
Depreciation and amortization expense	300,273	181,262
(Gain) loss on adjustment in contingent consideration	-	193,465
Change in fair value of derivative liabilities	(55,438)	3,865,511
Amortization of note discounts	-	6,134,367
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	51,185	(71,125)
Other current assets	20,778	(88,091)
Other assets	(8,290)	27,999
Accounts payable	(55,797)	624
Accrued interest	2,562	64,535
Accrued and deferred personnel compensation	39,675	(90,795)
Deferred revenue - related party	-	(35,262)
Deferred revenue and customer deposits	(139,510)	(8,309)
Other liabilities	(13,925)	(3,325)
Net cash used in operating activities	(3,383,809)	(2,084,814)
INVESTING ACTIVITIES		
Purchases of equipment	(24,865)	(2,799)
Acquisitions	(2,368,019)	(400,000)
Net cash used in investing activities	(2,392,884)	(402,799)
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable, net of finance offering costs	-	700,000
Payments on notes payable	-	(1,609,682)
Proceeds from issuance of common stock, net of issuance costs	4,977,130	6,897,177
Net cash provided by financing activities	4,977,130	5,987,495
Net change in cash	(799,563)	3,499,882
Cash at beginning of period	2,572,685	363
Cash at end of period	$ 1,773,122	$ 3,500,245
Supplemental disclosures:		
Cash paid during period for :		
Interest	$ 2,563	$ 146,973

Non-cash investing and financing activities:				
Debt discount from derivatives	$	-	$	4,614,714
Adjustment to derivative liability due to note repayment	$	-	$	40,511
Adjustment to derivative liability due to note conversion	$	-	$	10,726,967
Adjustment to derivative liability due to Allonge / ASID conversion	$	-	$	349,694
Adjustment to derivative liability due to non-employee warrant conversion	$	-	$	176,555
Issuance of common stock for Boomtext earn-out	$	-	$	2,210,667
Issuance of common stock for acquisitions	$	672,505	$	1,296,060
Issuance of common stock for cashless exercise of warrants	$	-	$	23,904
Issuance of common stock for accrued bonus	$	-	$	37,000
Issuance of note payable for acquisition	$	-	$	1,365,096
Earn-out payable recorded for acquisition	$	2,273,000	$	224,000
Conversion of notes payable into common stock	$	-	$	4,984,720
Conversion of accrued interest into common stock	$	-	$	369,786
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 September 30, 2014, and for the three and nine months ended September 30, 2014 and 2013. The results of operations for the three and nine months ended September 30, 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.

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.

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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) is a hosted solution. We generate revenue from licensing our software to clients in our software as a service (SaaS) model, and 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 or check. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. We also generate revenue on with 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. 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 Stampt App through customer agreements with business owners. Revenue is principally derived from monthly subscription fees which provide a license for unlimited use of the Stampt 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 Stampt App.

During the nine months ended September 30, 2014 and 2013, one customer accounted for 22% and 32%, 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 and nine months ended September 30, 2014 and 2013, the comprehensive loss was equal to the net loss.

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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 and nine months ended September 30, 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 June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The new guidance requires that share-based compensation that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards and that could be achieved after an employee completes the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation costs should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on our financial position or results of operations.

In July 2013, the FASB issued 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.

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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).

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.

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: (1) 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; (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 at the rate of $1.85 per share, which amount is based on 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.

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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 nine months ended September 30, 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.

Mobivity Holdings Corp.
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the nine months ended September 30, 2014

	Mobivity	SR	Pro forma adjustments	Pro forma combined
Revenues				
Revenues	$ 3,057,360	$ 214,139	$ -	$ 3,271,499
Cost of revenues	791,486	54,410	-	845,896
Gross margin	2,265,874	159,729	-	2,425,603
Operating expenses				
General and administrative	2,900,711	231,084	4,230(a)	3,136,025
Sales and marketing	2,723,979	60,077	-	2,784,056
Engineering, research, and development	1,026,120	139,649	-	1,165,769
Depreciation and amortization	300,273	403	-	300,676
Total operating expenses	6,951,083	431,213	4,230	7,386,526
Loss from operations	(4,685,209)	(271,484)	(4,230)	(4,960,923)
Other income/(expense)				

Interest income	2,034	-	-	2,034
Interest expense	(2,563)	-	-	(2,563)
Change in fair value of derivative liabilities	55,438	-	-	55,438
Total other income/(expense)	54,909	-	-	54,909
Loss before income taxes	(4,630,300)	(271,484)	(4,230)	(4,906,014)
Income tax expense	(1,678)	-	-	(1,678)
Net loss	$ (4,631,978)	$ (271,484)	$ (4,230)	$ (4,907,692)
Net loss per share - basic and diluted	$ (0.22)			$ (0.24)
Weighted average number of shares during the period - basic and diluted	20,672,880			20,299,303

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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.

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 adjustments	Pro forma combined
Revenues				
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
Operating expenses				
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)
Other income/(expense)				
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

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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.

Sequence Acquisition

In May 2013, the Company 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, the Company 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.

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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.

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, 2013, 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 September 30, 2014 and December 31, 2013 was $5,999,765 and $3,108,964, respectively. Goodwill at September 30, 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 September 30, 2014 and December 31, 2013:

	Balance at December 31, 2013	Additions	Amortization	Balance at September 30, 2014
Patents and trademarks	$ 118,098	$ -	$ (6,859)	$ 111,239
Customer contracts	541,528	-	(75,097)	466,431
Customer and merchant relationships	-	2,010,000	(111,306)	1,898,694
Trade name	22,391	176,000	(17,012)	181,379
Acquired technology	182,298	260,000	(62,386)	379,912
Non-compete agreement	71,001	-	(22,036)	48,965
	$ 935,316	$ 2,446,000	$ (294,696)	$ 3,086,620

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

During the nine months ended September 30, 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 $114,228 and $87,081 for the three months ended September 30, 2014 and 2013, respectively.

Amortization expense for intangible assets was $294,696 and $175,420 for the nine months ended September 30, 2014 and 2013, respectively.

The estimated future amortization expense of our intangible assets as of September 30, 2014 is as follows:

Year ending December 31,	Amount
2014	$ 114,232
2015	462,987
2016	385,026
2017	339,669
2018	333,820
Thereafter	1,450,886
Total	$ 3,086,620

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 September 30, 2014 and December 31, 2013, we recorded current derivative liabilities of $50,738 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 September 30, 2014 and 2013 was a gain of $2,354 and a gain of $51,913, respectively.

The net change in fair value of the derivative liabilities for the nine months ended September 30, 2014 and 2013 was a loss of $55,438 and a gain of $3,865,511, respectively.

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The following table presents the derivative liabilities by instrument type as of September 30, 2014 and December 31, 2013:

Derivative Value by Instrument Type	September 30, 2014	December 31, 2013
Common Stock and Warrants	$ 50,738	$ 106,176
	$ 50,738	$ 106,176

The following table presents details of our derivative liabilities from December 31, 2013 to September 30, 2014:

Balance December 31, 2013	$ 106,176
Change in fair value of derivative liabilities	(55,438)
Balance September 30, 2014	$ 50,738

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 97.6% - 115.5%
- Risk free rate of 0.13% - 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 September 30, 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.

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 Bride 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 September 30, 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	-	-	-
September 30, 2014	$ -	$ -	$ -

During the three months ended September 30, 2014 and 2013, we recorded Bridge Note discount amortization to interest expense of $-0- and $-0-, respectively.

During the nine months ended September 30, 2014 and 2013, we recorded Bridge Note discount amortization to interest expense of $-0- and $6,099,463, 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 $19,505 and $16,943 as of September 30, 2014 and December 31, 2013, respectively. The note is 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 September 30, 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 September 30, 2014 and December 31, 2013:

	Notes Payable		Accrued Interest	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
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	19,505	16,943
Notes payable	20,000	20,000	19,505	16,943
Totals	$ 20,000	$ 20,000	$ 19,505	$ 16,943

Interest Expense

The following table summarizes interest expense for the three months ended September 30, 2014 and 2013, and the nine months ended September 30, 2014 and 2013:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Amortization of note discounts	$ -	$ -	$ -	$ 6,134,367
Amortization of deferred financing costs	-	-	-	-
Other interest expense	883	807	2,563	212,993
	$ 883	$ 807	$ 2,563	$ 6,347,360

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 $4,977,130 (gross proceeds of $5,413,000 less financing costs of $435,870). Each unit consisted of one share of common stock and one warrant with an exercise price of $1.20.

At September 30, 2014, we had 22,237,762 shares of common stock outstanding.

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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.

In July 2014 we recorded a common stock payable of $199,575 related to Restricted Stock Units as compensation to non-exectutive directors. The grants were intended as compensation to non-executive directors for the calendar year 2014, or proportional service thereof. The number of shares was arrived at by dividing $65,000 intended for full year compensation divided by the closing stock price on date of grant, or $1.15. One director was granted an additional 25% in Restricted Stock Units for service as Lead Director for calendar year 2014. All of the Restricted Stock units vest as follows: 50% on date of grant, July 17th, 25% on September 30, 2014, and 25% on December 31, 2014, subject to director's continued service on the Board through each vesting date. The distribution of these shares will be the earlier of a date chosen by each director as drafted into the RSU agreement, a change in control of the Corporation, or the departure of the director from the Board. The total grant was 231,931 units, of which 75% or 173,543 are vested as of the quarter ended September 30, 2014.

Stock-based Plans

Stock Option Activity

The following table summarizes stock option activity for the nine months ended September 30, 2014:

	Options
Outstanding at December 31, 2013	5,672,464
Granted	898,500
Exercised	-
Canceled/forfeited/expired	(905,933)
Outstanding at September 30, 2014	5,665,031

The weighted average exercise price of stock options granted during the period was $1.02 and the related weighted average grant date fair value was $0.92 per share.

On February 27, 2014 the Company granted one employee 180,000 options to purchase shares of Company common stock at the closing price as of February 27, 2014 of $1.40 per share. The options vest 25% on the first anniversary of grant, then equally in monthly installments thereafter, and are exercisable until February 27, 2024. The total estimated value using the Black-Scholes Model, based on a volatility rate of 132% and a call option value of $1.26 was

$226,800.

On April 2, 2014 the Company granted two employees 200,000 options to purchase shares of Company common stock at the closing price as of April 15, 2014 of $1.32 per share. The options equally in monthly installments over 48 months, and are exercisable until April 2, 2024. The total estimated value using the Black-Scholes Model, based on a volatility rate of 132% and a call option value of $1.19 was $238,000.

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On April 15, 2014 the Company granted seven employees 18,500 options to purchase shares of Company common stock at the closing price as of April 15, 2014 of $1.44 per share. The options equally in monthly installments over 48 months, and are exercisable until April 15, 2024. The total estimated value using the Black-Scholes Model, based on a volatility rate of 132% and a call option value of $1.30 was $24,050.

On April 15, 2014 the Company granted two employees 5,000 options to purchase shares of Company common stock at the closing price as of April 15, 2014 of $1.44 per share. The options vest 25% on the first anniversary of grant, then equally in monthly installments thereafter, and are exercisable until April 15, 2024. The total estimated value using the Black-Scholes Model, based on a volatility rate of 132% and a call option value of $1.30 was $6,500.

On August 11, 2014 the Company granted five employees 312,500 options to purchase shares of the Company common stock at the closing price as of August 11, 2014 of $0.94 per share. The options vest 25% on the first anniversary of grant, then equally in monthly installments thereafter, and are exercisable until August 11, 2024. The total estimated value using the Black-Scholes Model, based on a volatility rate of 132% and a call option value of $0.85 was $265,625.

On September 29, 2014 the Company granted seven employees 182,500 options to purchase shares of the Company common stock at the closing price as of September 29, 2014 of $1.15 per share. The options vest 25% on the first anniversary of grant, then equally in monthly installments thereafter, and are exercisable until September 29, 2024. The total estimated value using the Black-Scholes Model, based on a volatility rate of 132% and a call option value of $1.04 was $189,800.

Stock-Based Compensation Expense

The impact on our results of operations of recording stock-based compensation expense for the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
General and administrative	$ 311,047	$ 386,347	$ 925,383	$ 662,509
Sales and marketing	29,258	656,396	116,733	1,656,052
Engineering, research, and development	16,588	3,081	26,852	5,056
	$ 356,892	$ 1,045,824	$ 1,068,968	$ 2,323,618

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 nine months ended September 30, 2014 and 2013.

	Nine months ended September 30,	
	2014	2013
Risk-free interest rate	1.97%	1.27%
Expected life (years)	6.08	5.57
Expected dividend yield	0%	0%
Expected volatility	132.0%	131.89%

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.

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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 $1,155 in general and administrative expense for the three months ended September 30, 2014.

We recorded stock-based compensation expense of $4,625 in general and administrative expense for the nine months ended September 30, 2014.

A summary of non-employee warrant activity from December 31, 2013 to September 30, 2014 is presented below:

	Number Outstanding
Outstanding at December 31, 2013	150,556
Granted	-
Exercised	-
Canceled/forfeited/expired	(555)
Outstanding at September 30, 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.

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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.

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 September 30, 2014, we have warrants to purchase 7,112,499 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 1,903,543 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 September 30, 2014 on a recurring and non-recurring basis:

Description	Level 1	Level 2	Level 3	Gains (Losses)
Goodwill (non-recurring)	$ -	$ -	$ 5,999,765	$ -
Intangibles, net (non-recurring)	$ -	$ -	$ 3,200,851	$ -
Derivatives (recurring)	$ -	$ -	$ 50,738	$ (55,438)

Earn-out payable (non-recurring)	$ -	$ -	$ 2,273,000	$ -

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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 (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 September 30, 2014.

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 have 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 at the rate of $1.85per share, which is based on (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 September 30, 2014, the estimated dollar value of the earn-out payable was $2,273,000. As of September 30, 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.

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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

In October 2014 we issued 300,000 shares to Del Mar Consulting Group, and 200,000 shares to Alex Partners LLC as compensation for contracted investor relations services.

In October 2014 we issued 10,431 shares to Lytham Partners as compensation for contracted investor relations services.

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 and mobile device applications, using our Web-hosted software solution available to both phones and tablet PCs. Through our SmartReceipt solution, we enable retailers to market their products and services from their point of sale systems. Through our Web-based software application that dynamically controls what is printed on receipts such as coupons, announcements, or other calls-to-action. 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, Sonic Drive-In, Chick-Fil-A, Jamba Juice, and others.

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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 paper-based loyalty punch cards. Stampt makes it easy to receive all of the rewards consumers want from their favorite businesses. Consumers can use Stampt throughout the United States to earn free sandwiches, coffee, pizza, frozen yogurt, donuts, bagels and more.

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.

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Recent Events

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.

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 at the rate of $1.85 per share, which is based on 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

In March 2014, the Company conducted a private placement of units of its securities, at $1.00 per unit, with each consisting 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. In the private placement, the Company sold 5,413,000 units for the gross proceeds of $5,413,000. 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.

During June through August of 2013, the Company conducted a private placement of 6,250,000 shares of its common stock at $1.20 per share. In that private placement, the Company sold 7,500,000 shares of common stock for the gross

proceeds of $7,500,000. EGE acted as placement agent and received $439,300 in commissions from and warrants to purchase an aggregate of 605,910 shares of the Company's common stock, exercisable for a period of five years from the closing date, at an exercise price of $1.20 per share. In connection with that placement, 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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Results of Operations

Revenues

Revenues for the three months ended September 30, 2014 were $1,044,254, an increase of $8,302, or 1%, compared to the same period in 2013. The net increase is primarily attributable to revenues attributed to Smart Receipt, which we acquired on March 12, 2014. Revenues from indirect sales increased $36,644, or 52%, as compared to the same period in 2013, due to incremental subscription gains by our reseller clients. We realized $220,651 of revenue from the acquired SmartReceipt operations during the three months ended September 30, 2014, whereas we had no revenues from the Smart Receipt operations during the prior year period. These increases were offset by a decrease in revenues in the amount of $144,271, 63%, from large enterprise accounts and non-recurring or one-time events. Revenues from subscription based licensing have continued to be affected by the new regulation put in place under the Telephone Consumer Protection Act in October, 2013, with the current quarter experiencing a decrease of $133,049, or 18% as compared to the same period in 2013.

Revenues for the nine months ended September 30, 2014 were $3,057,360, a decrease of $92,195, or 3%, compared to the same period in 2013. The net decrease is primarily attributable to a decrease in revenues from large enterprise accounts and non-recurring or one-time events in the amount of $559,862, or 58%. This decrease is due to decreased focus on enterprise accounts and non-recurring one-time events lines of business. Revenues from subscriber based licensing have continued to be affected by the new regulation put in place under the Telephone Consumer Protection Act in October, 2013, with the current year experiencing a decrease of $354,946 or 17% as compared to the same period in 2013. This decrease was offset by our realization of $557,046 of revenue from our SmartReceipt operations from the date of acquisition (March 12, 2014) to September 30, 2014. We also recognized an increase in revenue from indirect sales of $233,119, or 254%, due to the contracts from our acquisition of Front Door Insights in May, 2013. This revenue increased in average monthly billing, and also by having nine months of revenues in 2014 as compared to five months of revenue in the same period in 2013.

Cost of Revenues

Cost of revenues for the three months ended September 30, 2014 were $272,252, an increase of $3,745, or 1%, compared to the same period in 2013. This increase is due to higher server costs and higher commissions, offset by lower SMS fees, shortcode fees, and credit card merchant fees. Server costs and application expenses increased 81% to $79,596 due primarily to higher server bandwidth costs to accommodate the SmartReceipt. Sales commissions increased 163% to $40,420 due to additional sales personnel hired and commission paid on new sales. SMS fees decreased 25% to $79,890 as compared to same period in 2013 due to further reduction in negotiated volume discount. Shortcode fees declined 21% to $10,982 due to consolidation of codes and cancellation of unneeded codes. Merchant fees declined 27% to $5,632 due to reduced merchant fee rates from switching providers, and a larger percentage of customer revenue paid by check.

Cost of revenues for the nine months ended September 30, 2014 were $791,486, a decrease of $73,033, or 8%, compared to the same period in 2013. This decrease is primarily attributable to lower SMS fees, sales commissions, and credit card merchant fees, offset by higher server costs. SMS fees decreased 26% to $230,376 as compared to same period in 2013 due to further reduction in negotiated volume discount. Sales commissions decreased 5% to $116,274 due to reduced large enterprise and non-recurring revenues. Merchant fees declined 34% to $20,195 due to reduced merchant fee rates from switching providers, and a larger percentage of customer revenue paid by check. Server costs and application fees increased 68% to $203,761 due primarily to higher server bandwidth costs to accommodate the SmartReceipt.

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 decrease $408,032, or 31%, during the three months ended September 30, 2014 compared to the same period in 2013. The decrease in general and administrative expense was primarily due to decreased personnel expenses, share based compensation, legal fees, and travel and entertainment. Personnel related expenses decreased $94,718, and share based compensation decreased $34,940, due to decreased management and support headcount as compared to the same period in 2013 and stock options issued during the same period in 2013. Legal fees decreased $241,813 due to lower legal costs associated with our business activities during the period. Travel and entertainment costs decreased $19,434 due to reduced headcount and travel requirements as compared to the same period in 2013.

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General and administrative expenses increased $256,033, or 10%, during the nine months ended September 30, 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, rent/facilities expense, and one-time non-capital expenses related to acquisition of SmartReceipt. These increases were offset by decreases in consulting and professional fees. Personnel related expenses increased $88,493, and share based compensation increased $150,655, due to increased management and support headcount as compared to the same period in 2013. Rent and facilities costs increased $66,489 due to the additional facility assumed upon the SmartReceipt acquisition. One-time costs associated with auditing, consulting, and some legal fees for the SmartReceipt acquisition were $77,989. Consulting fees decreased by $55,888 primarily due to prior year utilization of consultants for operations management and accounting, and professional fees decreased by $22,788 due to reduced expenses incurred for SEC fees, filing fees, and transfer agent fees.

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 decreased $663,230, or 44%, during the three months ended September 30, 2014 compared to the same period in 2013. The decrease was primarily due to lower share based compensation expenses, travel and entertainment costs, offset by higher personnel and trade show related expenses. During the three months ended September 30, 2014, share based compensation decreased $627,137, and sales related travel & entertainment expenses decreased $74,020 over the prior year period. Personnel related expenses increased $17,320 primarily due to relocation bonuses granted during the current period. Trade show related expenses increased $18,155 due to higher show attendance as compared to the prior period in 2013.

Sales and marketing expenses decreased $565,925, or 17%, during the nine months ended September 30, 2014 compared to the same period in 2013. The decrease was primarily due to lower share based compensation expense, offset by higher payroll, trade show, and travel expenses. During the nine months ended September 30, 2014, share based compensation decreased $1,539,319 due primarily to partially vested stock options granted during the same period in 2013. Personnel costs increased $843,025, primarily due to a full nine months expense of management and sales head count hired in mid 2013. Trade show expenses increased $49,908 due to higher activity as compared to the same period in 2013. Sales related travel and entertainment expenses increased $75,975 due to additional travel requirements as compared to the same period in 2013.

Engineering, Research & Development

Engineering, research & development costs include salaries, stock based compensation expenses, travel, consulting costs, and other expenses.

Engineering, research & development expenses increased $129,947, or 61%, during the three months ended September 30, 2014 compared to the same period in 2013. The increase was primarily due to higher personnel related costs. During the three months ended September 30, 2014, personnel related expenses increased $125,035 due primarily to the addition of internal headcount and resources acquired during the acquisition of SmartReceipt.

Engineering, research & development expenses increased $560,505, or 120%, during the nine months ended September 30, 2014 compared to the same period in 2013. The increase was primarily due to higher personnel related costs, hardware, and travel expenses. During the nine months ended September 30, 2014, personnel related expenses increased $526,871, hardware costs increased $12,322, and travel increased $14,679 due primarily to the addition of internal headcount and resources acquired during the acquisition of SmartReceipt.

Depreciation and Amortization

Depreciation and amortization expense consists of depreciation on our equipment and amortization of our intangible assets. Depreciation and amortization expense increased $27,176, or 30%, during the three months ended September 30, 2014 compared to the same period in 2013. Depreciation and amortization expense increased $119,011, or 66%, during the nine months ended September 30, 2014 compared to the same period in 2013. 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.

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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 $76, or 9%, during the three months ended September 30, 2014 compared to the same period in 2013. Interest expense decreased $6,344,797, or 100%, during the nine months ended September 30, 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 September 30, 2014 and 2013 was a gain of $2,354 and a gain of $51,913, respectively.

The change in fair value of derivative liabilities for the nine months ended September 30, 2014 and 2013 was a loss of $55,438 and a gain of $3,865,511, 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 adjustments.

Liquidity and Capital Resources

As of September 30, 2014, we had current assets of $2,245,917, including $1,773,122 in cash, and current liabilities of $3,351,832, resulting in a working capital deficit of $(1,105,915). Current liabilities as of September 30, 2014 included estimated earn-outs in the amount of $2,332,000 and derivative liabilities in the amount of $50,738, all of which are payable in shares of our common stock. Giving no effect to the estimated earn-out and derivative liabilities, we had pro forma working capital as of September 30, 2014 in the amount of $1,276,823.

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 six months. However, there can be no assurance that we will not require additional capital within the next six 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 September 30,	
	2014	2013
Net cash provided by (used in):		
Operating activities	$ (3,383,809)	$ (2,084,814)
Investing activities	(2,392,884)	(402,799)
Financing activities	4,977,130	5,987,495
Net change in cash	$ (799,563)	$ 3,499,882

Investing Activities

Investing activities during the nine months ended September 30, 2014 include $2,368,019 in cash consideration used in our acquisitions during the period.

Financing Activities

Financing activities for the nine months ended September 30, 2014 include net proceeds from the sale of common stock units of $4,977,130.

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Critical Accounting Policies and Estimates

Refer to Note 2, “Summary of Significant Accounting Polices,” 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 September 30, 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 September 30, 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
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: November 14, 2014	By:	/s/ Dennis Becker Dennis Becker Chief Executive Officer (Principal Executive Officer)
Date: November 14, 2014	By:	/s/ Timothy Schatz Timothy Schatz Chief Financial Officer (Principal Accounting Officer)