

IZEA Holdings, Inc.  
Form 10-Q  
May 15, 2012  
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 333-167960

IZEA, INC.  
(Exact name of registrant as specified in its charter)

Nevada	37-1530765
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

150 N. Orange Avenue  
Suite 412  
Orlando, FL 32801  
(Address of principal executive offices)

Registrant's telephone number: (407) 674-6911

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

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

Edgar Filing: IZEA Holdings, Inc. - Form 10-Q

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of May 14, 2012, there were 45,028,002 shares of our common stock outstanding.

---

Table of Contents

Quarterly Report on Form 10-Q for the period ended March 31, 2012

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2012 (unaudited) and December 31, 2011</u>	<u>1</u>
<u>Unaudited Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011</u>	<u>2</u>
<u>Unaudited Consolidated Statement of Stockholders' Deficit for the three months ended March 31, 2012</u>	<u>3</u>
<u>Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011</u>	<u>4</u>
<u>Notes to the Unaudited Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>21</u>
<u>Item 4. Controls and Procedures</u>	<u>21</u>
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>22</u>
<u>Item 1A. Risk Factors</u>	<u>22</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>24</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>24</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>24</u>
<u>Item 5. Other Information</u>	<u>24</u>
<u>Item 6. Exhibits</u>	<u>25</u>
 <u>Signatures</u>	<u>26</u>

---

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

IZEA, Inc.

## Consolidated Balance Sheets

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Current:		
Cash and cash equivalents	\$ 123,668	\$ 225,277
Accounts receivable, net	536,272	690,575
Prepaid expenses	35,458	165,736
Deferred finance costs, net of accumulated amortization of \$3,893	17,907	—
Other current assets	50,301	38,897
Total current assets	763,606	1,120,485
Property and equipment, net	140,135	152,434
Intangible assets, net of accumulated amortization of \$27,894 and \$17,434	97,631	108,091
Security deposits	21,038	21,038
Total assets	\$ 1,022,410	\$ 1,402,048
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 1,146,290	\$ 1,080,015
Accrued payroll	305,732	224,438
Deferred rent	3,975	10,830
Unearned revenue	1,086,757	1,132,794
Compound embedded derivative	25,861	—
Current portion of capital lease obligations	20,643	25,070
Current portion of notes payable	494,720	—
Total current liabilities	3,083,978	2,473,147
Capital lease obligations, less current portion	23,759	27,850
Warrant liability	647,789	752,486
Total liabilities	3,755,526	3,253,483
Stockholders' deficit:		
Series A convertible preferred stock; \$.0001 par value; 240 shares authorized; 230 shares issued and outstanding	—	—
Common stock, \$.0001 par value; 500,000,000 shares authorized; 38,670,427 and 38,648,450 issued and outstanding	3,867	3,865
Additional paid-in capital	16,310,991	16,275,484
Accumulated deficit	(19,047,974 )	(18,130,784 )
Total stockholders' deficit	(2,733,116 )	(1,851,435 )

Total liabilities and stockholders' deficit	\$ 1,022,410	\$ 1,402,048
---	--------------	--------------

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

IZEA, Inc.  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Revenue	\$1,645,367	\$922,778
Cost of sales	659,281	441,535
Gross profit	986,086	481,243
Operating expenses:		
General and administrative	1,783,981	962,214
Sales and marketing	193,539	167,481
Total operating expenses	1,977,520	1,129,695
Loss from operations	(991,434	) (648,452 )
Other income (expense):		
Interest expense	(16,744	) (7,904 )
Change in fair value of derivatives	90,987	—
Other income (expense), net	1	27
Total other income (expense)	74,244	(7,877 )
Net loss	\$(917,190	) \$(656,329 )
Weighted average common shares outstanding – basic and diluted	38,653,116	645,602
Loss per common share – basic and diluted	\$(0.02	) \$(1.02 )

See accompanying notes to unaudited consolidated financial statements.

2

---

Table of Contents

IZEA, Inc.

Consolidated Statement of Stockholders' Deficit

(Unaudited)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders' Equity (Deficit)
	Shares	Amt	Shares	Amt	Capital	Deficit	
Balance, December 31, 2011	230	\$—	38,648,450	\$3,865	\$16,275,484	\$(18,130,784)	\$(1,851,435)
Exercise of stock options	—	—	21,977	2	1,097	—	1,099
Stock-based compensation expense	—	—	—	—	34,410	—	34,410
Net loss	—	—	—	—	—	(917,190 )	(917,190 )
Balance, March 31, 2012	230	\$—	38,670,427	\$3,867	16,310,991	\$(19,047,974)	\$(2,733,116)



See accompanying notes to unaudited consolidated financial statements.

3

---

Table of Contents

IZEA, Inc.

Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$(917,190)	) \$(656,329)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	26,652	10,796
Stock-based compensation	34,410	—
Change in fair value of derivatives	(90,987)	) —
Cash provided by (used for):		
Accounts receivable, net	154,303	(2,315)
Prepaid expenses and other current assets	118,874	(12,365)
Accounts payable	66,275	(29,895)
Accrued payroll	91,665	41,259
Unearned revenue	(46,037)	) (17,445)
Deferred rent	(6,855)	) —
Net cash used for operating activities	(568,890)	) (666,294)
Cash flows from financing activities:		
Proceeds from issuance of notes payable, net	474,700	—
Proceeds from exercise of stock options	1,099	—
Payments on notes payable	(8,518)	) (87,557)
Net cash provided by (used for) financing activities	467,281	(87,557)
Net decrease in cash and cash equivalents	(101,609)	) (753,851)
Cash and cash equivalents, beginning of year	225,277	1,503,105
Cash and cash equivalents, end of period	\$123,668	\$749,254
Supplemental cash flow information:		
Cash paid during period for interest	\$2,481	\$7,529
Non-cash financing and investing activities:		
Fair value of compound embedded derivative in promissory note	\$12,151	\$—

See accompanying notes to unaudited consolidated financial statements.

4

---

IZEA, Inc.

Notes to Unaudited Consolidated Financial Statements

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of March 31, 2012, the consolidated statements of operations for the three months ended March 31, 2012 and 2011, the consolidated statement of stockholders' deficit for the three months ended March 31, 2012 and the consolidated statements of cash flows for the three months ended March 31, 2012 and 2011 are unaudited but include all adjustments that are, in the opinion of management, necessary for a fair presentation of our financial position at such dates and our results of operations and cash flows for the periods then ended in conformity with U.S. generally accepted accounting principles ("US GAAP"). The consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated financial statements at that date but, in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"), does not include all of the information and notes required by US GAAP for complete financial statements. Operating results for the three months ended March 31, 2012 are not necessarily indicative of results that may be expected for the entire fiscal year. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2011 included in the Company's Annual Report on Form 10-K filed with the SEC on March 28, 2012.

##### Nature of Business and Reverse Merger and Recapitalization

IZEA, Inc., (the "Company") formerly known as IZEA Holdings, Inc. and before that, Rapid Holdings, Inc., was incorporated in Nevada on March 22, 2010. On May 12, 2011, the Company completed a share exchange pursuant to which it acquired all of the capital stock of IZEA Innovations, Inc. ("IZEA") which became its wholly owned subsidiary. IZEA was incorporated in the state of Florida in February 2006 and was later reincorporated in the state of Delaware in September 2006 and changed its name to IZEA, Inc. from PayPerPost, Inc. on November 2, 2007. In connection with the share exchange, the Company discontinued its former business and continued the social media sponsorship business of IZEA as its sole line of business. On November 23, 2011, the Company changed its name from "IZEA Holdings, Inc." to "IZEA, Inc." and the name of its subsidiary, IZEA, changed from "IZEA, Inc." to "IZEA Innovations, Inc." (collectively the "Company"). The Company headquarters are in Orlando, FL.

The share exchange was accounted for as a reverse-merger and recapitalization where IZEA is the acquirer for accounting purposes and IZEA, Inc. is the acquired company. Accordingly, IZEA's historical financial statements for periods prior to the acquisition have become the Company's retroactively restated for, and giving effect to, the number of shares received in the share exchange. The assets, liabilities and accumulated earnings, along with operations, reported in the financial statements prior to the share exchange are those of IZEA and are recorded at the historical cost basis.

The Company believes it is a world leader in social media sponsorships ("SMS"), a rapidly growing segment within social media where a company compensates a social media publisher to share sponsored content within their social network. The Company accomplishes this by operating multiple marketplaces that include its premier platforms SocialSpark, SponsoredTweets and WeReward, as well as its legacy platforms PayPerPost and InPostLinks. The Company's advertisers include a wide range of small and large businesses, including Fortune 500 companies, as well as advertising agencies. The Company generates its primary revenue through the sale of SMS to its advertisers. The Company fulfills the SMS through its marketplace platforms by connecting its social media publishers such as bloggers, tweeters and mobile application users with its advertisers.

##### Principles of Consolidation

The consolidated financial statements include the accounts of the IZEA, Inc. as of the date of the reverse merger, and its wholly owned subsidiary, IZEA Innovations, Inc. All significant intercompany balances and transactions have been

eliminated in consolidation.

#### Going Concern and Management's Plans

The opinion of the Company's independent registered public accounting firm on the audited financial statements as of and for the year ended December 31, 2011 contains an explanatory paragraph regarding substantial doubt about the Company's ability to continue as a going concern.

The Company has incurred significant losses from operations since inception and has an accumulated deficit of \$19,047,974 as of March 31, 2012. Net losses for the three months ended March 31, 2012 and for the year ended December 31, 2011 were \$917,190 and \$3,978,592, respectively. The Company's ability to continue as a going concern is dependent upon raising capital from financing transactions. The Company's financial statements have been prepared on the basis that it is a going concern, which assumes continuity of operations and the realization of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments that might result if the Company was forced to discontinue its operations.

IZEA, Inc.

Notes to Unaudited Consolidated Financial Statements

Management is currently in negotiations with several investors to secure sufficient capital through financing transactions to meet the needs of its operations and future growth plans. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of the Company's common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if the Company is able to raise funds in financing transactions, it is possible that the Company could incur unexpected costs and expenses, fail to collect significant amounts owed to the Company, or experience unexpected cash requirements that would force the Company to seek alternative financing. Furthermore, if the Company issues additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of the Company's common stock.

There can be no assurance that the Company will be successful in its negotiations to secure additional financing or that the terms of any such financing transactions will not result in the issuance, or potential issuance, of a significant amount of equity securities that will cause substantial dilution to the Company's stockholders. The inability to obtain additional capital may restrict the Company's ability to grow and may reduce its ability to continue to conduct business operations. If the Company is unable to obtain additional financing, it may have to curtail its marketing and development plans and possibly cease operations.

Cash and Cash Equivalents and Concentration

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. All non-interest bearing cash balances were fully insured at March 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the Company's non-interest bearing cash balances may again exceed federally insured limits. The Company did not have any interest-bearing amounts on deposit in excess of federally insured limits at March 31, 2012.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable are customer obligations due under normal trade terms. Uncollectability of accounts receivable is not significant since most customers are bound by contract and are required to fund the Company for all the costs of an "opportunity", defined as an order created by an advertiser for a publisher to write about the advertiser's product. If a portion of the account balance is deemed uncollectible, the Company will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. Management determines the collectability of accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. The Company has recorded a reserve for doubtful accounts of \$10,000 as of March 31, 2012 and December 31, 2011. Management believes that this estimate is reasonable, but there can be no assurance that the estimate will not change as a result of a change in economic conditions or business conditions within the industry, the individual customers or the Company. Any adjustments to this account are reflected in the statements of operations as a general and administrative expense.

Concentrations of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company also controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable. At March 31, 2012, the Company had two customers who accounted for 22% and 11% of the Company's accounts receivable. At

December 31, 2011, the Company had two different customers who accounted for 15% and 12% of the Company's accounts receivable.

Property and Equipment

Depreciation and amortization is computed using the straight-line method and half-year convention over the estimated useful lives of the assets as follows:

Equipment	3 years
Furniture and fixtures	5 - 10 years
Software	3 years
Leasehold improvements	3 years

IZEA, Inc.

Notes to Unaudited Consolidated Financial Statements

Major additions and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. When assets are retired or otherwise disposed of, related costs and accumulated depreciation and amortization are removed and any gain or loss is reported as other income or expense.

**Impairment of Long-Lived Assets**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets.

**Revenue Recognition**

Revenue consists of sponsored revenue (such as revenue per blog post, per tweet, per click, per purchase, or per action) from an advertiser and service fees charged to advertisers and publishers. Service fees to advertisers include fees charged for management of advertising campaigns through the Company's platforms and inactivity fees for dormant accounts. Service fees to publishers include upgrade account fees for obtaining greater visibility to advertisers in advertiser searches in the Company's platforms, early cash out fees and inactivity fees for dormant accounts. Sponsored revenue is recognized and considered earned after an advertiser's opportunity is posted on the Company's websites and their request was completed and content listed, as applicable, by the Company's publishers for a requisite period of time. The requisite period ranges from 3 days for an action or tweet to 30 days for a blog. Customers may prepay for services by placing a deposit in their account with us. In these cases, the deposits are recorded as unearned revenue until earned as described above. Service fees are recognized upon completion of the management of an advertiser's campaign or immediately when the maintenance or enhancement service is performed for an advertiser or publisher. All of the Company's revenue is generated through the rendering of services and is recognized under the general guidelines of SAB Topic 13 A.1 which states that revenue will be recognized when it is realized or realizable and earned. The Company considers its revenue as generally realized or realizable and earned once i) persuasive evidence of an arrangement exists, ii) services have been rendered, iii) the price to the advertiser or customer is fixed (required to be paid at a set amount that is not subject to refund or adjustment) and determinable, and iv) collectability is reasonably assured. The Company records revenue on the gross amount earned since it generally is the primary obligor in the arrangement, establishes the pricing and determines the service specifications.

**Advertising Costs**

Advertising costs are charged to expense as they are incurred, including payments to contact creators to promote the Company. Advertising expense charged to operations for the three months ended March 31, 2012 and 2011 were approximately \$94,000 and \$128,000, respectively, and are included in sales and marketing expense in the accompanying Statements of Operations.

**Deferred Rent**

The Company's operating lease for its office facilities contains predetermined fixed increases of the base rental rate during the lease term which is being recognized as rental expense on a straight-line basis over the lease term. The Company records the difference between the amounts charged to operations and amounts payable under the lease as deferred rent in the accompanying balance sheets.

**Income Taxes**

The Company has not recorded current income tax expense due to the generation of net operating losses. Deferred income taxes are accounted for using the balance sheet approach which requires recognition of deferred tax assets and liabilities for the expected future consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. A valuation allowance is provided when it is more likely than not that a deferred tax



asset will not be realized.

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company's remaining open tax years subject to examination by the Internal Revenue Service include the years ended December 31, 2008 through 2011.

#### Preferred Stock

The Company accounts for its preferred stock under the provisions of Accounting Standards Codification ("ASC") on Distinguishing Liabilities from Equity, which sets forth the standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This standard requires an issuer to classify a financial instrument

IZEA, Inc.

Notes to Unaudited Consolidated Financial Statements

that is within the scope of the standard as a liability if such financial instrument embodies an unconditional obligation to redeem the instrument at a specified date and/or upon an event certain to occur. The Company determined that IZEA's preferred stock outstanding prior to May 12, 2011 did not meet the criteria requiring liability classification as its obligation to redeem these instruments was not based on an event certain to occur. The Series A Preferred Stock of the Company issued in May 2011 does not have a redemption feature. Future changes in the certainty of the Company's obligation to redeem these instruments could result in a change in classification.

Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with ASC 815, Derivatives and Hedging ("ASC 815"), which requires additional disclosures about the Company's objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements. The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt and equity instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

Beneficial Conversion and Warrant Valuation

The Company records a beneficial conversion feature ("BCF") related to the issuance of convertible debt and equity instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation are recognized a) for convertible debt as interest expense over the term of the debt, using the effective interest method or b) for preferred stock as dividends at the time the stock first becomes convertible.

Fair Value of Financial Instruments

The Company's financial instruments are recorded at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1 – Valuation based on quoted market prices in active markets for identical assets and liabilities.

Level 2 – Valuation based on quoted market prices for similar assets and liabilities in active markets.

Level 3 – Valuation based on unobservable inputs that are supported by little or no market activity, therefore requiring management's best estimate of what market participants would use as fair value.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2012. The Company uses the market approach to measure fair value of its Level 1 financial assets, which include cash equivalents of \$5 at March 31, 2012 and December 31, 2011. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company does not have any Level 2 financial assets or liabilities. The Company's Level 3 financial liabilities measured at fair value consisted of the warrant liability and its compound embedded derivative as of March 31, 2012

(see Note 3).

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash, accounts receivable, accounts payable and accrued expenses. The fair value of the Company's notes payable and capital lease obligations approximate their carrying value based upon current rates available to the Company.

#### Stock-Based Compensation

Stock-based compensation cost related to stock options granted under the 2007 and May 2011 Equity Incentive Plans – see Note 4) is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes option-

IZEA, Inc.

## Notes to Unaudited Consolidated Financial Statements

pricing model that uses the assumptions noted in the table below. The Company estimates the volatility of its common stock at the date of grant based on the volatility of comparable peer companies which are publicly traded. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. The Company uses the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. The Company used the following assumptions for options granted under the May 2011 Equity Incentive Plan during the three months ended March 31, 2012 and for options granted under the 2007 Equity Incentive Plan during the three months ended March 31, 2011:

	Three Months Ended	
	March 31, 2012	March 31, 2011
2007 Equity Incentive Plan Assumptions		
Expected term	n/a	5 years
Weighted average volatility	n/a	54.96%
Weighted average risk free interest rate	n/a	2.36%
Expected dividends	n/a	0
	Three Months Ended	
	March 31, 2012	March 31, 2011
2011 Equity Incentive Plan Assumptions		
Expected term	5 years	n/a
Weighted average volatility	54.85%	n/a
Weighted average risk free interest rate	0.82%	n/a
Expected dividends	0	n/a

The Company estimates forfeitures when recognizing compensation expense and this estimate of forfeitures is adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also impact the amount of unamortized compensation expense to be recognized in future periods. Current average expected forfeiture rates were 50.21% during the three months ended March 31, 2012 and 2011.

## Non-employee Stock-Based Compensation

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of EITF 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services," now ASC 505 and EITF 00-18 "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees," now ASC 505. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable.

## Segment Information

The Company does not identify separate operating segments for management reporting purposes. The results of operations are the basis on which management evaluates operations and makes business decisions.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Recent Accounting Pronouncements

There are several new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective. Management does not believe any of these accounting pronouncements will be applicable and therefore will not have a material impact on the Company's financial position or operating results.

IZEA, Inc.

Notes to Unaudited Consolidated Financial Statements

## Reclassifications

Certain items have been reclassified in the 2011 financial statements to conform to the 2012 presentation.

## NOTE 2. NOTES PAYABLE

On February 3, 2012, the Company issued a senior secured promissory note in the principal amount of \$550,000 (the "Note") to two of its existing shareholders for a purchase price of \$500,000 less \$3,500 in lender fees. In connection with the Note, the Company incurred expenses of \$21,800 for legal and other fees. Accordingly, net cash proceeds from the Note amounted to \$474,700. Unless earlier converted, exchanged or prepaid, the Note originally was set to mature on August 2, 2012, but was contractually extended until February 2, 2013 when the Company did not receive at least \$1,500,000 in net proceeds from the sale of certain of its securities by March 2, 2012. The Note may be prepaid by the Company at any time. The obligations under the Note are first priority senior secured obligations (subject to an equipment lease) and are secured by substantially all of the Company's assets. The face value of the Note may be exchanged at the option of the holders into the applicable dollar amount of equity securities issued by the Company in a subsequent financing. The holders may convert the outstanding principal amount of the Note at a conversion price of 90% of the closing price of the Company's common stock on the trading day prior to the date that the Note becomes convertible, subject to further adjustment in the case of stock splits, reclassifications, reorganizations, certain issuances at less than the conversion price and the like. The Company is further subject to certain liquidated damages if it fails to timely effectuate a conversion under the terms of the Note. Until such time that the Note is no longer outstanding, without the consent of the holders, the Company is prohibited from incurring certain debt, selling any account receivable or declaring any dividend.

Proceeds from the Note financing were allocated first to the embedded conversion option (see Note 3) that required bifurcation and recognition in liabilities at fair value and the residual was allocated to the Note in the amount of \$486,500. The Note carrying value is subject to amortization, through charges to interest expense, over the term to maturity using the effective interest method. During the period from inception to March 31, 2012, amortization amounted to \$10,371. Direct finance costs allocated to the embedded derivative were expensed on Day 1. Direct finance costs allocated to the Note are subject to amortization to interest expense using the effective interest method. During the period from inception to March 31, 2012, amortization amounted to \$3,893. The value of the Note inclusive of accrued interest as of March 31, 2012 was \$494,720.

## NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are defined as financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets. The Company generally does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company entered into financing transactions during 2011 and the three months ended March 31, 2012 that gave rise to derivative liabilities. These financial instruments are carried as derivative liabilities, at fair value, in the Company's financial statements.

The following table summarizes the Company's derivative activity for the three months ended March 31, 2012:

Linked Common	Warrant Liability	Linked Common	Compound Embedded	Income (Expense)
------------------	----------------------	------------------	----------------------	---------------------

Edgar Filing: IZEA Holdings, Inc. - Form 10-Q

	Shares to Warrants	Amount	Shares to Promissory Note	Derivative	from Change in Fair Value of Derivatives
Beginning balance, December 31, 2011	6,164,606	\$752,486	—	\$—	\$—
Issuance of promissory note with compound embedded derivative - February 3, 2012	—		936,639	12,151	—
Change in fair value of derivatives	—	(104,697	) 238,843	13,710	90,987
Ending balance, March 31, 2012	6,164,606	\$647,789	1,175,482	\$25,861	\$90,987

Changes in the fair value of derivative financial instruments are required to be recorded in other income in the period of change.

IZEA, Inc.

## Notes to Unaudited Consolidated Financial Statements

The Company's warrants issued in financing transactions during 2011 embody features that result in adjustment to the exercise price when the Company sells common stock or other common stock linked contracts below the \$0.50 exercise price. Since anti-dilution risk is present when the trading market price is below or projected to be below the stated exercise price, a random walk Brownian motion technique was used to estimate the future market prices and the probabilities that the stock price would be below the stated exercise price during the implied expected life of the warrant. These values were used to develop assumptions which were incorporated in the Binomial model used to value the warrants. A stochastic process is a sequence of events or paths generated by probabilistic laws and Brownian motion is a continuous stochastic process that is widely used in financing for modeling random behavior that evolves over time. At each valuation date, the model is run using monthly steps based upon the following inputs: the current trading market price, the implied expected life of the warrants and the estimated volatility over the implied expected life. The simulation returns the mean stock price (New Price) and the probability of the stock price falling below the exercise price (SPP). These values are used as inputs into the Binomial, since it is assumed a market participant would consider changes in the Company's market price when considering the value to assign to the anti-dilution protection.

The derivative warrants were valued using a Binomial Lattice Option Valuation Technique ("Binomial"). Significant inputs into this technique are as follows:

	Inception Dates		
	May 24 and 26, 2011	August 15, 2011	March 31, 2012
Fair market value of asset <sup>(1)</sup>	\$0.33	\$0.33	\$0.31
Exercise price	\$0.50	\$0.50	\$0.50
Term <sup>(2)</sup>	5.0 Years	5.0 Years	4.2--4.4 Years
Implied expected life <sup>(3)</sup>	4.9 Years	4.9 Years	4.1--4.4 Years
Volatility range of inputs <sup>(4)</sup>	64.4%--95.8%	61.9%--94.7%	46.2%--89.6%
Equivalent volatility <sup>(3)</sup>	76.9%	75.2%	66.7%--67.0%
Risk-free interest rate range of inputs <sup>(5)</sup>	0.11%--1.81%	0.08%--0.99%	0.07%--1.04%
Equivalent risk-free interest rate <sup>(3)</sup>	0.50%	0.33%	0.27%--0.33%

(1) The fair market value of the asset was determined by management using all available information including, but not limited to the trading market price and the actual, negotiated prices paid by the independent investors in the May 2011 Offering and a private offering in December 2011.

(2) The term is the contractual remaining term, allocated among twelve equal intervals for purposes of calculating other inputs, such as volatility and risk-free rate.

(3) The implied expected life, and equivalent volatility and risk-free interest rate amounts are derived from the Binomial.

(4) The Company does not have a market trading history upon which to base its forward-looking volatility. Accordingly, the Company selected peer companies that provided a reasonable basis upon which to calculate volatility for each of the intervals described in (1), above.

(5) The risk-free rates used for inputs represent the yields on zero coupon US Government Securities with periods to maturity consistent with the intervals described in (1), above.

The Company concluded that the Compound Embedded Derivative ("CED") in the senior secured promissory note (the "Note") as discussed in Note 2 requires bifurcation and liability classification as derivative financial instruments and fair value measurement because it did not meet the definition of indexed to the Company's own stock as provided



in ASC 815, Derivatives and Hedging.

The Monte Carlo Simulation (“MCS”) technique was used to calculate the fair value of the CED because it does provide for the necessary assumptions and inputs. The MCS technique, which is an option-based model, is a generally accepted valuation technique for valuing embedded conversion features in hybrid convertible notes, because it is an open-ended valuation model that embodies all significant assumption types, and ranges of assumption inputs that management of the Company and the Valuation Analyst agree would likely be considered in connection with the arms-length negotiation related to the transference of the instrument by market participants. In addition to the typical assumptions in a closed-end option model, such as volatility and a risk free rate, MCS incorporates assumptions for interest risk, credit risk and redemption behavior. In addition, MCS breaks down the time to expiration into potentially a large population of time intervals and steps. However, there may be other circumstances or

IZEA, Inc.

## Notes to Unaudited Consolidated Financial Statements

considerations, other than those addressed herein, that relate to both internal and external factors that would be considered by market participants as it relates specifically to the Company and the subject financial instruments. The effects, if any, of these considerations cannot be reasonably measured, quantified or qualified.

The following table shows the summary calculations arriving at the CED values as of February 3, 2012 (inception date) and March 31, 2012. See the assumption details for the composition of these calculations.

	February 3, 2012	March 31, 2012
Notional amount	\$505,785	\$507,808
Conversion price	0.540	0.432
Linked common shares <sup>(1)</sup>	936,639	1,175,482
MCS value per linked common share <sup>(2)</sup>	0.013	0.022
Total	\$12,151	\$25,861

(1) The Compound Embedded Derivative is linked to a variable number of common shares based upon a percentage of the Company's closing stock price as reflected in the Over-The-Counter ("OTC") Listing. The number of linked shares will increase as the trading market price decreases and will decrease as the trading market price increases. The fluctuation in the number of linked common shares will have an effect on fair values in future periods.

(2) The Note embodied a contingent conversion feature that was predicated upon a financing transaction that was planned for a date between the issuance date and March 2, 2012. If the financing occurred, the maturity date of the Note was August 2, 2012. If the financing did not occur, the maturity date of the Note was February 2, 2013. While, in hindsight, the financing did not occur, the calculation of value must consider that on the issuance date the contingency was present and resulted in multiple scenarios of outcome as it related to the conversion feature subject to bifurcation. The mechanism for building this contingency into the MCS value was to perform two separate calculations of value and weight them on a reasonable basis.

Significant inputs into the MCS as of February 3, 2012 and March 31, 2012 are as follows:

	Inception Date February 3, 2012	March 31, 2012
Fair market value of asset <sup>(1)</sup>	\$0.31	\$0.31
Conversion price	\$0.54	\$0.43
Term <sup>(2)</sup>	.5 - 1 year	.84 year
Implied expected life <sup>(3)</sup>	.743 years	.845 years
Volatility range of inputs <sup>(4)</sup>	44.23%--70.30%	36.89%--66.03%
Equivalent volatility <sup>(3)</sup>	55.9%	52.1%
Risk adjusted interest rate range of inputs <sup>(5)</sup>	10.00%--30.95%	7.62%--13.73%
Equivalent risk-adjusted interest rate <sup>(3)</sup>	16.43%	11.47%
Credit risk-adjusted interest rate <sup>(6)</sup>	12.71%	15.81%

(1) The fair market value of the asset was determined by management using all available information including, but not limited to the trading market price and the actual, negotiated prices paid by a private offering in December 2011.

(2) The term is the contractual remaining term, allocated among twelve equal intervals for purposes of calculating other inputs, such as volatility and risk-free rate.

(3) The implied expected life, and equivalent volatility and risk-free risk-adjusted interest rate amounts are derived from the MCS.

(4) The Company does not have a market trading history upon which to base its forward-looking volatility. Accordingly, the Company selected peer companies that provided a reasonable basis upon which to calculate volatility for each of the intervals described in (1), above.

IZEA, Inc.

Notes to Unaudited Consolidated Financial Statements

(5) CED's bifurcated from debt instruments are expected to contain an element of market interest risk. That is, the risk that market driven interest rates will change during the term of a fixed rate debt instrument.

(6) The Company utilized a yield approach in developing its credit risk assumption. The yield approach assumes that the investor's yield on the instrument embodies a risk component, generally, equal to the difference between the actual yield and the yield for a similar instrument without regard to risk.

#### NOTE 4. STOCKHOLDERS' DEFICIT

##### Stock Financing Transactions and Registration Rights

On May 24, 2011, May 26, 2011 and August 15, 2011, the Company entered into subscription agreements with certain investors (the "Investors") whereby it raised \$3,330,000 through the sale of 333 units (the "Units"), at a purchase price of \$10,000 per Unit (the "May 2011 Offering"). Each Unit consisted of either (i) 30,303 shares of the Company's common stock or (ii) one share of the Company's Series A Preferred Stock, par value \$.0001 per share, which is convertible into 30,303 shares of common stock, plus a fully exercisable, five-year warrant to purchase 18,182 shares of common stock for \$9,091 or \$0.50 per linked share of common stock (the "Warrants").

As a result of the May 2011 Offering, Investors who purchased 230 Units elected to receive preferred stock and Investors who purchased 103 Units elected to receive common stock. Accordingly, the Company issued (i) 3,121,209 shares of common stock, (ii) 230 shares of Series A Preferred Stock, which are linked by conversion to 6,969,690 shares of common stock, and (iii) 333 Warrant Contracts that are linked by exercise to an aggregate of 6,054,606 shares of common stock.

In connection with the May 2011 Offering, the Company incurred expenses of \$286,593 for placement agent, legal and other fees. Accordingly, net cash proceeds from the May 2011 Offering amounted to \$3,043,407. Additionally, the Company issued warrants to the placement agent to purchase 100,000 shares of common stock, which had a fair value of \$17,600, with the same terms and conditions as the Warrants issued to the investors in the May 2011 Offering.

The Company entered into registration rights agreements, as amended (the "Registration Rights Agreement") with the Investors in the May 2011 Offering, pursuant to which the Company agreed to file a "resale" registration statement with the SEC covering the shares of common stock issuable upon conversion of Series A Preferred Stock and the shares of common stock underlying the Warrants within 12 months after the final closing date of the May 2011 Offering (i.e. August 15, 2012) (the "Filing Date"). The Company agreed to use its reasonable best efforts to have the registration statement declared effective within 15 months after the final closing date of the May 2011 Offering (i.e. November 15, 2012) (the "Effectiveness Deadline") and to maintain the effectiveness of the registration statement from the effective date until all securities have been sold or are otherwise able to be sold pursuant to Rule 144 without restriction or limitation. Pursuant to the Registration Rights Agreement, the Company is obligated to pay to Investors a fee of 1% per month of the Investors' investment, payable in cash, for every thirty (30) day period up to a maximum of 6%, (i) following the required Filing Date that the registration statement has not been filed and (ii) following the required Effectiveness Deadline that the registration statement has not been declared effective; provided, however, that the Company shall not be obligated to pay any such liquidated damages if the Company is unable to fulfill its registration obligations as a result of rules, regulations, positions or releases issued or actions taken by the SEC pursuant to its authority with respect to "Rule 415", provided the Company registers at such time the maximum number of shares of common stock permissible upon consultation with the staff of the SEC and provided further that the Company will not be obligated to pay liquidated damages at any time following the one year anniversary of the Final Closing Date (as defined in the Registration Rights Agreements) of the May 2011 Offering.

### Stock Options

In February 2007, the board of directors adopted the 2007 Equity Incentive Plan (the “2007 Plan”). The 2007 Plan allowed the Company to provide options as an incentive for employees and consultants. On May 11, 2011, the 2007 Plan was amended to increase the number available for issuance under the 2007 Plan from 2,313,317 to 4,889,829 shares of Series A common stock. In connection with a share exchange on May 12, 2011, all of the 3,712,365 outstanding stock options under the 2007 Plan were canceled, effectively terminating the 2007 Plan. The Company simultaneously issued new options to the same employees under a new 2011 Equity Incentive Plan of IZEA, Inc. adopted on May 12, 2011 (the “May 2011 Plan”). The Company has an aggregate of 7,100,000 shares of common stock reserved for issuance under the May 2011 Plan. The cancellation and replacement of the stock options under the 2007 Plan were accounted for as a modification of the terms of the canceled awards. There was a minimal incremental difference required to be recorded on 109,370 shares where the fair value of the replacement options exceeded the fair value of the canceled options at the date of cancellation and replacement.

IZEA, Inc.

## Notes to Unaudited Consolidated Financial Statements

On August 22, 2011, the Company adopted the 2011 B Equity Incentive Plan of IZEA, Inc. (the "August 2011 Plan") reserving for issuance an aggregate of 3,500,000 shares of common stock under the August 2011 Plan. As of March 31, 2012, no grants have been made under the August 2011 Plan.

Under both the May 2011 Plan and the August 2011 Plan, the board of directors determines the exercise price to be paid for the shares, the period within which each option may be exercised, and the terms and conditions of each option. The exercise price of the incentive and non-qualified stock options may not be less than 100% of the fair market value per share of the Company's common stock on the grant date. If an individual owns stock representing more than 10% of the outstanding shares, the price of each share of an incentive stock option will be equal to or exceed 110% of fair market value. Unless otherwise determined by the board of directors at the time of grant, the right to purchase shares covered by any options under the May and August 2011 Plans shall vest over the requisite service period as follows: one-fourth of options shall vest one year from the date of grant and the remaining options shall vest monthly, in equal increments over the remaining three-year period. The term of the options is up to 10 years.

A summary of option activity under the May 2011 Plan for the three months ended March 31, 2012 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Outstanding at December 31, 2010	—	\$—	
Granted	4,787,165	0.43	
Exercised	(27,240)	) 0.05	
Forfeited	(183,230)	) 0.15	
Outstanding at December 31, 2011	4,576,695	\$0.44	4.4
Granted	110,000	0.70	
Exercised	(21,977)	) 0.05	
Forfeited	(148,612)	) 0.52	
Outstanding at March 31, 2012	4,516,106	\$0.45	4.2
Exercisable at March 31, 2012	2,569,030	\$0.40	4.1

During the three months ended March 31, 2011, there were no options exercised. During the three months ended March 31, 2012, there were options exercised into 21,977 shares of the Company's common stock for cash proceeds of \$1,099. The intrinsic value of the options exercised during the three months ended March 31, 2012 was \$5,769. There is no aggregate intrinsic value on the exercisable, outstanding options as of March 31, 2012 since the weighted average exercise price exceeded the fair value on such date. During the three months ended March 31, 2012, the Company modified one employee option agreement whereby it accelerated the vesting on all the remaining 93,125 unvested shares to current day and it extended the exercise period post termination from 90 days to 180 days. The modification resulted in an incremental difference of \$11,744 that was recorded and included in stock-based compensation expense during the three months ended March 31, 2012.

The following tables contain summarized information about nonvested stock options outstanding at March 31, 2012 under the May 2011 Plan:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Years to Vest
Nonvested at December 31, 2010	—	\$—	

Edgar Filing: IZEA Holdings, Inc. - Form 10-Q

Granted	4,787,165	0.05	
Vested	(2,318,771 )	0.04	
Forfeited	(168,873 )	0.06	
Nonvested at December 31, 2011	2,299,521	\$0.07	2.5
Granted	110,000	0.08	
Vested	(314,356 )	0.06	
Forfeited	(148,089 )	0.09	
Nonvested at March 31, 2012	1,947,076	\$0.07	2.3

IZEA, Inc.

Notes to Unaudited Consolidated Financial Statements

Total stock-based compensation expense recognized on awards outstanding during the three months ended March 31, 2012 and 2011 was \$34,410 and \$0. Future compensation related to nonvested awards expected to vest of \$55,844 is estimated to be recognized over the remaining individual vesting periods of up to five years.

#### NOTE 5. RELATED PARTY TRANSACTIONS

During 2006, IZEA entered into a General Services Agreement (“GSA”) with an entity owning 100% of IZEA’s Series B common stock. The GSA consisted of the purchase of certain marketing deliverables and equipment, as well as marketing consulting services. Cash paid to this related party during the three months ended March 31, 2012 and 2011 was \$3,765 and \$7,640 respectively. Expenses associated with the GSA were \$7,481 and \$14,362 for the three months ended March 31, 2012 and 2011, respectively, and are included in sales and marketing expenses in the accompanying statements of operations. The contract is on a month-to-month basis until terminated by either party.

The amount due to this related party and included in accounts payable at March 31, 2012 and 2011 was \$12,637 and \$9,167, respectively. The amount due from this related party and included in accounts receivable at March 31, 2012 was \$21,604. There is no right of offset related to the amounts payable and receivable from the related party.

#### NOTE 6. LOSS PER COMMON SHARE

Net losses were reported during the three months ended March 31, 2012 and 2011. As such, the Company excluded the following items from the computation of diluted loss per common share as their effect would be anti-dilutive:

	Three Months Ended March 31,	
	2012	2011
Stock options	4,516,106	3,695,892
Warrants	6,167,930	3,324
Potential conversion of Series A convertible preferred stock	6,969,690	—
Potential conversion of promissory note payable	1,273,149	—
Total excluded shares	18,926,875	3,699,216

#### NOTE 7. SUBSEQUENT EVENTS

No material events have occurred since March 31, 2012 that require recognition or disclosure in the financial statements, except as follows:

On May 8, 2012, the Company sold 5,600,000 shares of its common stock at a purchase price of \$0.125 per share, receiving gross proceeds of \$700,000, in a private placement to two accredited investors (the “Investors”), pursuant to the terms of a Common Stock Purchase Agreement (the “Purchase Agreement”). Pursuant to the terms of a Registration Rights Agreement (the “Registration Rights Agreement”), the Company agreed to file a registration statement with the SEC for purposes of registering the resale of the shares of common stock sold in the private placement. In the event the registration statement is not filed within 60 days following the final closing, the Company will pay the Investors 0.5% of the subscription amount of their shares for every 30-day period that the registration statement is not filed. In the event the registration statement is not declared effective within 105 days following the final closing (or 135 days if the registration statement is reviewed by the SEC), the Company will pay the Investors 0.5% of the subscription amount of their shares for every 30-day period, that the registration statement is not declared effective, subject to the ability of the Investors to sell their shares pursuant to Rule 144. The liquidated damages can be paid in cash or in



additional shares of the Company's common stock, at the Company's option.

On May 11, 2012, an investor converted 25 shares of the Company's Series A Convertible Preferred Stock into 757,575 shares of common stock pursuant to the terms of the May 2011 Offering as discussed in Note 4.

Table of Contents

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, our consolidated financial statements and related notes included elsewhere in this Report. Historical results and percentage relationships among any amounts in these financial statements are not necessarily indicative of trends in operating results for any future period. This report contains “forward-looking statements”. The statements, which are not historical facts contained in this report, including this Management’s Discussion and Analysis of Financial Condition and Results of Operation, and notes to our consolidated financial statements, particularly those that utilize terminology such as “may” “will,” “should,” “expects,” “anticipates,” “estimates,” “believes,” or “plans” or comparable terminology are forward-looking statements. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and our actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, our ability to raise additional funding, our ability to maintain and grow our business, variability of operating results, our ability to maintain and enhance our brand, our expansion and development of new products and services, marketing and other business development initiatives, competition in the industry, general government regulation, economic conditions, dependence on key personnel, the ability to attract, hire and retain personnel who possess the technical skills and experience necessary to meet the service requirements of our clients, our ability to protect our intellectual property, the potential liability with respect to actions taken by our existing and past employees, risks associated with international sales, and other risks described herein and in our other filings with the Securities and Exchange Commission.

The safe harbor for forward-looking statements provided by Section 21E of the Securities Exchange Act of 1934 excludes issuers of “penny stock” (as defined under Rule 3a51-1 of the Securities Exchange Act of 1934). Our common stock currently falls within that definition.

All forward-looking statements in this document are based on information currently available to us as of the date of this report, and we assume no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Company History

IZEA, Inc., formerly known as IZEA Holdings, Inc. and before that, Rapid Holdings, Inc., was incorporated in Nevada on March 22, 2010. On May 12, 2011, we completed a share exchange pursuant to which we acquired all of the capital stock of IZEA Innovations, Inc. ("IZEA") which became our wholly owned subsidiary. IZEA was incorporated in the state of Florida in February 2006 and was later reincorporated in the state of Delaware in September 2006 and changed its name to IZEA, Inc. from PayPerPost, Inc. on November 2, 2007. In connection with the share exchange, we discontinued our former business and continued the social media sponsorship business of IZEA as our sole line of business. On November 23, 2011, our name changed from "IZEA Holdings, Inc." to "IZEA, Inc." and the name of our subsidiary, IZEA, changed from "IZEA, Inc." to "IZEA Innovations, Inc."

The share exchange was accounted for as a reverse-merger and recapitalization where IZEA is the acquirer for accounting purposes and IZEA, Inc. is the acquired company. Accordingly, IZEA's historical financial statements for periods prior to the acquisition have become ours retroactively restated for, and giving effect to, the number of shares received in the share exchange. The assets, liabilities and accumulated earnings, along with operations, reported in the

financial statements prior to the share exchange are those of IZEA and are recorded at the historical cost basis.

#### Company Overview

We believe we are a world leader in social media sponsorships ("SMS"), a rapidly growing segment within social media where a company compensates a social media publisher to share sponsored content within their social network.

We accomplish this by operating multiple marketplaces that include our premier platforms SocialSpark, SponsoredTweets and WeReward, as well as our legacy platforms PayPerPost and InPostLinks. Our advertisers include a wide range of small and large businesses, including Fortune 500 companies, as well as advertising agencies. We generate our primary revenue through the sale of SMS to our advertisers. We fulfill the SMS through our marketplace platforms by connecting our social media publishers such as bloggers, tweeters and mobile application users with our advertisers.

Table of Contents

## Results of Operations for the Three Months Ended March 31, 2012 Compared to March 31, 2011

	Three Months Ended March 31,				
	2012	2011	\$ Change	% Change	
Revenue	\$1,645,367	\$922,778	\$722,589	78.3	%
Cost of sales	659,281	441,535	217,746	49.3	%
Gross profit	986,086	481,243	504,843	104.9	%
Operating expenses:					
General and administrative	1,783,981	962,214	821,767	85.4	%
Sales and marketing	193,539	167,481	26,058	15.6	%
Total operating expenses	1,977,520	1,129,695	847,825	75.0	%
Loss from operations	(991,434)	(648,452)	(342,982)	(52.9)	)%
Other income (expense):					
Interest expense	(16,744)	(7,904)	(8,840)	111.8	%
Change in fair value of warrant liability	90,987	—	90,987	100.0	%
Other income (expense), net	1	27	(26)	(96.3)	)%
Total other income (expense)	74,244	(7,877)	82,121	1,042.5	%
Net loss	\$(917,190)	\$(656,329)	\$(260,861)	(39.7)	)%

## Revenues

We derive revenue from two sources: revenue from an advertiser for the use of our network of social media publishers to fulfill advertiser sponsor requests for a blog post, tweet, click, purchase, or action (our “Sponsored Revenue”) and revenue derived from various service fees charged to advertisers for management, maintenance and enhancement of their accounts, and to publishers for maintenance and enhancement of their accounts (“Service Fee Revenue”).

Revenues for the three months ended March 31, 2012 increased by \$722,589, or 78.3%, compared to the same period in 2011. The increase was attributable to an approximately \$654,000 increase in our Sponsored Revenue and a \$69,000 increase in Service Fee Revenue. In the three months ended March 31, 2012, Sponsored Revenue was 86% and Service Fee Revenue was 14% of total revenue compared to Sponsored Revenue of 83% and Service Fee Revenue of 17% in the three months ended March 31, 2011. The increase in Sponsored Revenue was primarily attributable to increased sales growth in our core social media platforms, Social Spark and SponsoredTweets. This exponential growth was brought about by a focus on localized client development through the increase in number of our executive sales team in Orlando, New York City, Chicago, Seattle and Dallas and an increase in customer conversions. The increase in Service Fee Revenue is primarily due to the growth in IZEA, Media our display advertising solution. We expect that our revenue will continue to increase over prior period levels as we continue to focus our sales efforts, improve on our three core social media marketing platforms and launch new product initiatives.

## Cost of Sales and Gross Profit

Our cost of sales comprise primarily of amounts paid to our social media publishers for fulfilling an advertiser’s sponsor request for a blog post, tweet, click, purchase or action.

Cost of sales for the three months ended March 31, 2012 increased by \$217,746, or 49.3%, compared to the same period in 2011. Cost of sales increased as a direct result of the increase in our Sponsored Revenue and the direct publisher costs to generate such revenue. Publisher costs typically range from 50% to 80% of the advertising campaign depending on the type of publisher used in the campaign. Celebrity publishers typically used in our SponsoredTweets marketplace cost more than our average publisher cost of 50% in other marketplaces.

Gross profit for the three months ended March 31, 2012 increased by \$504,843, or 104.9%, compared to the same period in 2011. Our gross margin increased to 60% for the three months ended March 31, 2012 as compared to 52% for the same period in 2011. The gross margin increase was primarily attributable to the increase in service fees received from advertisers and publishers that have minimal costs associated with the revenue along with improved margins in our SponsoredTweets marketplace.

## Table of Contents

### Operating Expenses

Operating expenses consist of general and administrative, and sales and marketing expenses. Total operating expenses for the three months ended March 31, 2012 increased by \$847,825, or 75.0%, compared to the same period in 2011. The increase was primarily attributable to increased payroll expenses, professional fees, costs of being a public company and increases in sales and marketing expenses.

General and administrative expenses consist primarily of payroll, general operating costs, public company costs, facilities costs, insurance, depreciation, professional fees, and investor relations fees. General and administrative expenses for the year ended March 31, 2012 increased by \$821,767 or 85.4%, compared to the same period in 2011. The increase was primarily attributable to a \$23,000 increase in rent expense with the addition of three new office space locations in mid-2011, a \$375,000 increase in payroll, personnel and related benefit expenses due to salary increases and additional employees, a \$46,000 increase in travel related to additional personnel in multiple locations, a \$265,000 increase in professional fees and reporting costs as a result of the current and abandoned financing transactions, a \$47,000 increase for costs of being a public company, and an increase in stock-based compensation of \$34,000. We expect that personnel costs and professional fees will continue to increase over prior levels as we continue to expand our sales force, work on financing transactions and expand our reporting and investor relations efforts as a public company.

Sales and marketing expenses consist primarily of compensation for sales and marketing and related support resources, sales commissions and trade show expenses. Sales and marketing expenses for the three months ended March 31, 2012 increased by \$26,058 or 15.6%, compared to the same period in 2011. The increase was primarily attributable to the increase in outside contractors to support our customers.

### Other Income (Expense)

Other income (expense) consists primarily of interest expense and the change in the fair value of derivatives.

Interest expense during the three months ended March 31, 2012 increased by \$8,840 compared to the same period in 2011 primarily due to the issuance of a senior secured promissory note in the principal amount of \$550,000 in February 2012.

We recognized income of \$90,987 relating to the change in the fair value of our derivatives consisting of income of \$104,697 related to warrants issued in connection with financing transactions in 2011 and an expense of \$13,710 for a change in the fair value of the compound embedded derivative in our promissory note during the three months ended March 31, 2012. We have no control over the amount of change in the fair value of our derivative instruments as this is a factor based on fluctuating rates and market conditions outside of our control.

### Net Loss

Net loss for the three months ended March 31, 2012 was \$917,190 which increased from the net loss of \$656,329 for the same period in 2011. As discussed above, although gross profit increased over the prior year due to increased revenue, these improvements were exceeded by the large increase in operating expenses attributable to increased headcount, professional fees, public company and other sales and marketing expenses.

### Liquidity and Capital Resources

Our cash position was \$123,668 as of March 31, 2012 as compared to \$225,277 as of December 31, 2011, a decrease of \$101,609. We have incurred significant net losses and negative cash flow from operations since our inception. We incurred net losses of \$917,190 and \$3,978,592 for the three months ended March 31, 2012 and for the year ended December 31, 2011, respectively, and had an accumulated deficit of \$19,047,974 as of March 31, 2012. The opinion of our independent registered public accounting firm on our audited financial statements as of and for the year ended December 31, 2011 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions.

Cash used for operating activities was \$568,890 during the three months ended March 31, 2012 and was primarily a result of our net loss during the period of \$917,190. Cash provided by financing activities was \$467,281 during the three months ended March 31, 2012 primarily as a result of net proceeds of \$474,700 received from the issuance of a promissory note as further discussed below. Financing activities were reduced by principal payments of \$8,518 on our capital leases.

## Table of Contents

To date, we have financed our operations through internally generated revenue from operations, the sale of our equity and the issuance of notes and loans from shareholders.

On February 3, 2012, we and our subsidiary, IZEA, jointly issued a senior secured promissory note in the principal amount of \$550,000 (the “Note”) to two of our existing shareholders for a purchase price of \$500,000 less \$3,500 in lender fees. In connection with the Note, we incurred expenses of \$21,800 for legal and other fees. Accordingly, net cash proceeds from the Note amounted to \$474,700. Unless earlier converted, exchanged or prepaid, the Note originally was set to mature on August 2, 2012, but was automatically extended until February 2, 2013 upon the occurrence of certain circumstances. The Note may be prepaid by us at any time and must be prepaid by us if we receive at least \$1,500,000 in net proceeds from the sale of certain of our securities. The obligations under the Note are first priority senior secured obligations (subject to an equipment lease) and are secured by substantially all of our assets and assets of our subsidiary. The face value of the Note may be exchanged at the option of the holders into the applicable dollar amount of equity securities issued by us in a subsequent financing. If the Note is not fully paid by maturity and the term of the Note has been extended until February 2, 2013, then the holders may convert the outstanding principal amount of the Note at a conversion price of 90% of the closing price of our common stock on the trading day prior to the date that the Note becomes convertible, subject to further adjustment in the case of stock splits, reclassifications, reorganizations, certain issuances at less than the conversion price and the like. We are further subject to certain liquidated damages if we fail to timely effectuate a conversion under the terms of the Note. Until such time that the Note is no longer outstanding, without the consent of the holders, we are prohibited from incurring certain debt, selling any account receivable or declaring any dividend.

On May 8, 2012, we sold 5,600,000 shares of our common stock at a purchase price of \$0.125 per share, receiving gross proceeds of \$700,000, in a private placement to two accredited investors (the “Investors”), pursuant to the terms of a Common Stock Purchase Agreement (the “Purchase Agreement”). Pursuant to the terms of a Registration Rights Agreement (the “Registration Rights Agreement”), we agreed to file a registration statement with the SEC for purposes of registering the resale of the shares of common stock sold in the private placement. In the event the registration statement is not filed within 60 days following the final closing, we will pay the Investors 0.5% of the subscription amount of their shares for every 30-day period that the registration statement is not filed. In the event the registration statement is not declared effective within 105 days following the final closing (or 135 days if the registration statement is reviewed by the SEC), we will pay the Investors 0.5% of the subscription amount of their shares for every 30-day period, that the registration statement is not declared effective, subject to the ability of the Investors to sell their shares pursuant to Rule 144. The liquidated damages can be paid in cash or in additional shares of our common stock, at our option.

On May 11, 2012, in accordance with the terms of the May 2011 financing documents, an investor converted 25 shares of our Series A Convertible Preferred Stock into 757,575 shares of common stock.

We are currently in negotiations with several investors to secure sufficient capital through financing transactions to meet the needs of our operations and future growth plans. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise funds in financing transactions, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock.

There can be no assurance that we will be successful in our negotiations to secure additional financing or that the terms of any such financing transactions will not result in the issuance, or potential issuance, of a significant amount



of equity securities that will cause substantial dilution to our stockholders. The inability to obtain additional capital may restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we may have to curtail our marketing and development plans and possibly cease operations.

#### Off Balance Sheet Arrangements

We do not engage in any activities involving variable interest entities or off-balance sheet arrangements.

#### Critical Accounting Policies and Use of Estimates

The preparation of the accompanying financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in the accompanying financial statements and the accompanying notes. The preparation of these financial statements requires managements to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and

## Table of Contents

liabilities. When making these estimates and assumptions, we consider our historical experience, our knowledge of economic and market factors and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of the financial statements.

Accounts receivable are customer obligations due under normal trade terms. Uncollectability of accounts receivable is not significant since most customers are bound by contract and are required to fund us for all the costs of an “opportunity”, defined as an order created by an advertiser for a publisher to write about the advertiser’s product. If a portion of the account balance is deemed uncollectible, we will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. Management determines the collectability of accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. We have a reserve for doubtful accounts of \$10,000 at March 31, 2012 and December 31, 2011. We believe that this estimate is reasonable, but there can be no assurance that our estimate will not change as a result of a change in economic conditions or business conditions within our industry, our individual customers or our Company. Any adjustments to this account are reflected in the statements of operations as a general and administrative expense.

Revenue consists of sponsored revenue (such as revenue per blog post, per tweet, per click, per purchase, or per action) from an advertiser and service fees charged to advertisers and publishers. Service fees to advertisers include fees charged for management of advertising campaigns through our platforms and inactivity fees for dormant accounts. Service fees to publishers include upgrade account fees for obtaining greater visibility to advertisers in advertiser searches in our platforms, early cash out fees and inactivity fees for dormant accounts. Sponsored revenue is recognized and considered earned after an advertiser's opportunity is posted on our websites and their request was completed and content listed, as applicable, by our publishers for a requisite period of time. The requisite period ranges from 3 days for an action or tweet to 30 days for a blog. Customers may prepay for services by placing a deposit in their account with us. In these cases, the deposits are recorded as unearned revenue until earned as described above. Service fees are recognized upon completion of the management of an advertiser's campaign or immediately when the maintenance or enhancement service is performed for an advertiser or publisher. All of our revenue is generated through the rendering of services and is recognized under the general guidelines of SAB Topic 13 A.1 which states that revenue will be recognized when it is realized or realizable and earned. We consider our revenue as generally realized or realizable and earned once i) persuasive evidence of an arrangement exists, ii) services have been rendered, iii) our price to the advertiser or customer is fixed (required to be paid at a set amount that is not subject to refund or adjustment) and determinable, and iv) collectability is reasonably assured. We record revenue on the gross amount earned since we generally are the primary obligor in the arrangement, establish the pricing and determine the service specifications.

Stock based compensation is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee’s requisite service period. We estimate the fair value of each stock option as of the date of grant using the Black-Scholes pricing model. Options vest ratably over four years with one-fourth of options vesting one year from the date of grant and the remaining options vesting monthly, in equal increments over the remaining three-year period and generally have ten-year contract lives. We estimate the fair value of our common stock using recent independent valuations or the value paid in the most recent equity or financing transactions. We estimate the volatility of our common stock at the date of grant based on the volatility of comparable peer companies which are publicly traded. We determine the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. We use the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. We have never paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We estimate forfeitures when recognizing compensation expense and this estimate of forfeitures is adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are

recognized through a cumulative catch-up adjustment, which is recognized in the period of change. Changes also impact the amount of unamortized compensation expense to be recognized in future periods.

The tables below show the amount of options granted under our Plans and the assumptions used to determine the fair value of those options during the three months ended March 31, 2012 and 2011.

2007 Plan Options Granted

Quarter Ended	Total Options Granted	Weighted Average Fair Value of Common Stock	Weighted Average Expected Term	Weighted Average Volatility	Weighted Average Risk Free Interest Rate	Weighted Average Fair Value of Options Granted
March 31, 2011	3,748,620	\$0.03	5 years	54.96%	2.36%	\$0.02

Table of Contents

## 2011 Plan Options Granted

Quarter Ended	Total Options Granted	Weighted Average Fair Value of Common Stock	Weighted Average Expected Term	Weighted Average Volatility	Weighted Average Risk Free Interest Rate	Weighted Average Fair Value of Options Granted
March 31, 2012	110,000	\$0.31	5 years	54.85%	0.82%	\$0.08

There were 4,516,106 options outstanding as of March 31, 2012 with a weighted average exercise price of \$0.45 per share. There is no aggregate intrinsic value on the exercisable, outstanding options as of March 31, 2012 since the weighted average exercise price exceeded the fair value of our common stock on such date.

We account for derivative instruments in accordance with ASC 815, Derivatives and Hedging, which requires additional disclosures about the our objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements. We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt and equity instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

We record a beneficial conversion feature ("BCF") related to the issuance of convertible debt and equity instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation are recognized a) for convertible debt as interest expense over the term of the debt, using the effective interest method or b) for preferred stock as dividends at the time the stock first becomes convertible.

## Recent Accounting Pronouncements

There are several new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective. Management does not believe any of these accounting pronouncements will be applicable and therefore will not have a material impact on our financial position or operating results.

## ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISK

Not required.

## ITEM 4 – CONTROLS AND PROCEDURES

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 Securities Exchange Act of 1934, as

amended (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures 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, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosures.

In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Furthermore, controls and procedures could be circumvented by the individual acts of some persons, by collusion or two or more people or by management override of the control. Misstatements due to error or fraud may

## Table of Contents

occur and not be detected on a timely basis.

### Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2012. Based on the results of that evaluation, our management concluded that our disclosure controls and procedures were effective as of March 31, 2012.

### Changes in Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the Company's transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements and that receipts and expenditures of the Company's assets are made in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company's financial statements would be prevented or detected.

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1 – LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is, however, subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe would or could have, individually or in the aggregate, a material adverse effect on us.

### ITEM 1A – RISK FACTORS

In addition to the information set forth under Item 1A of Part I to our Annual Report on Form 10-K for the year ended December 31, 2011 and updates noted below, investors should consider that there are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. If any of these risks actually occur, our business,

financial condition or results of operation may be materially adversely affected. In such case, the trading price of our common stock could decline and investors could lose all or part of their investment.

#### Risks Related to our Business

We will need significant additional capital, which we may be unable to obtain.

Revenues generated from our operations are not presently sufficient to sustain our operations. Therefore, we will need to raise additional capital to continue our operations. There can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to us. We may be required to pursue sources of additional capital through various means, including debt or equity financings. Future financings through equity investments are

## Table of Contents

likely to be dilutive to existing stockholders. Also, the terms of securities we may issue in future capital transactions may be more favorable for our new investors. Newly issued securities may include preferences, superior voting rights, the issuance of warrants or other derivative securities, and the issuances of incentive awards under equity employee incentive plans, which may have additional dilutive effects. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition. Our ability to obtain needed financing may be impaired by such factors as the capital markets and our history of losses, which could impact the availability or cost of future financings. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs, even to the extent that we reduce our operations accordingly, we may be required to cease operations.

We have a history of losses, limited operating funds and our ability to continue as a going concern is dependent on our ability to obtain additional capital to operate the business.

We have incurred significant net losses and negative cash flow from operations since our inception. We incurred net losses of \$917,190 and \$3,978,592 for the three months ended March 31, 2012 and for the year ended December 31, 2011, respectively, and had an accumulated deficit of \$19,047,974 as of March 31, 2012. Although our revenue has increased since inception, we have not achieved profitability and cannot be certain that we will be able to sustain these growth rates or realize sufficient revenue to achieve profitability. The opinion of our independent registered public accountants on our audited financial statements as of and for the year ended December 31, 2011 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions.

We have received a notice of default for non-payment of rent for our corporate headquarters in Orlando, FL. and may have to vacate our premises prior to the end of our lease term.

We had not paid our rental obligations pursuant to the terms of the lease on our Orlando office space during the months of February, March and April 2012 while we were trying to negotiate revised terms on our lease which is set to expire in December 2012. As a result, we received a notice of default. However, we paid all past due and current rental payments owed in May 2012. We have not yet reached an agreement to renew the lease at our current location, but we have identified and tentatively secured alternative office space where we can move our headquarters that would be on terms more beneficial than our current lease. Moving our corporate headquarters would require attention from our senior management and staff and could divert their attention away from the day-to-day management of our business, which could cause certain business interruptions that would adversely impact our business operations.

## Risks Relating to our Common Stock

Our management will be able to exert control over us to the detriment of minority stockholders.

As of May 14, 2012, our executive officers and directors beneficially own approximately 47% of our outstanding common stock. These stockholders, if they act together, will be able to control our management and affairs and all matters requiring stockholder approval, including significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing our change in control and might affect the market price of our common stock.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.



If our stockholders sell substantial amounts of our common stock in the public market upon the expiration of any statutory holding period, under Rule 144, or issued upon the exercise of outstanding options or warrants or conversion of preferred stock or other convertible securities, it could create a circumstance commonly referred to as an “overhang” and in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Of the approximately 45,028,002 shares of our common stock outstanding as of May 14, 2012, approximately 23,590,899 shares are freely tradable without restriction as of that date. As of May 14, 2012, we have 10,702,511 shares of common stock issuable upon exercise of options and warrants and 1,909,723 shares of common stock that may become issuable upon the conversion of our senior secured promissory note in the principal amount of \$550,000, assuming a conversion price of \$0.288 per share on

Table of Contents

such date.

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

During the quarter ended March 31, 2012, we issued 21,977 shares of common stock upon receipt of cash proceeds of \$1,099 for the exercise of stock options at an average exercise price of \$.05 per share.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4 – MINE SAFETY DISCLOSURES

N/A

ITEM 5 – OTHER INFORMATION

NONE

24

---

Table of Contents

ITEM 6 – EXHIBITS

3.1		Articles of Incorporation (Incorporated by reference to the Company’s registration statement on Form S-1 filed with the Securities and Exchange Commission on July 2, 2010)
3.2		Certificate of Amendment to the Articles of Incorporation (Incorporated by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2011)
3.3		Bylaws (Incorporated by reference to the Company’s registration statement on Form S-1 filed with the Securities and Exchange Commission on July 2, 2010)
3.4		Certificate of Designation (Incorporated by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on May 27, 2011)
3.5		Amendment to Certificate of Designation (Incorporated by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on May 27, 2011)
31.1		Section 302 Certification of Principal Executive Officer
31.2		Section 302 Certification of Principal Financial Officer
32.1	*	Section 906 Certification of Principal Executive Officer
32.2	*	Section 906 Certification of Principal Financial Officer
101	**	The following materials from IZEA, Inc.'s Quarterly Report on Form 10-Q for the three months ended March 31, 2012 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations, (iii) the Unaudited Consolidated Statement of Stockholders' Deficit, (iv) the Unaudited Consolidated Statements of Cash Flow, and (iv) Notes to the Unaudited Consolidated Financial Statements tagged as blocks of text.

\* In accordance with Item 601 of Regulation S-K, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

\*\* 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.

Table of Contents

SIGNATURES

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

IZEA, Inc.  
a Nevada corporation

May 15, 2012

By: /s/ Edward Murphy  
Edward Murphy  
President, Chief Executive Officer,  
and a Director  
(Principal Executive Officer)

May 15, 2012

By: /s/ Donna Mackenzie  
Donna Mackenzie  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting  
Officer)