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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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

For the transition period from ___________ to __________

Commission file number 000-53851

Mobivity Holdings Corp.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	26-3439095

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

55 N. Arizona Place, Suite 310

Chandler, Arizona 85225

(Address of Principal Executive Offices & Zip Code)

(877) 282-7660

(Registrant's Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days. Yes   No

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

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

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

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

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

As of August 10, 2018, the registrant had 45,880,156 shares of common stock issued and outstanding.

MOBIVITY HOLDINGS CORP.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Mobivity Holdings Corp.

Condensed Consolidated Balance Sheets

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets		
Cash	$ 4,242,884	$ 460,059
Accounts receivable, net of allowance for doubtful accounts of $6,966 and $2,280, respectively	1,485,850	885,743
Other current assets	221,535	209,536
Total current assets	5,950,269	1,555,338
Goodwill	803,118	803,118
Intangible assets, net	670,636	676,436
Accounts receivable, long term	618,157	-
Other assets	89,532	88,916
TOTAL ASSETS	$ 8,131,712	$ 3,123,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 950,490	$ 1,096,003
Accrued interest	54,967	1,168
Accrued and deferred personnel compensation	713,695	590,500
Deferred revenue and customer deposits	2,248,449	1,429,266
Notes payable, net - current maturities	1,140,133	2,236,224
Other current liabilities	344,331	226,355
Total current liabilities	5,452,065	5,579,516
Non-current liabilities		
Notes payable, net - long term	214,260	180,810
Other long term liabilities	473,684	-
Total non-current liabilities	687,944	180,810
Total liabilities	6,140,009	5,760,326
Commitments and Contingencies (See Note 9)		
Stockholders' equity		
	44,105	37,025

Common stock, $0.001 par value; 100,000,000 shares authorized; 44,105,156 and 37,025,140, shares issued and outstanding		
Equity payable	100,862	100,862
Additional paid-in capital	85,564,435	77,910,842
Accumulated other comprehensive loss	(8,667)	(65,764)
Accumulated deficit	(83,709,032)	(80,619,483)
Total stockholders' equity	1,991,703	(2,636,518)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,131,712	$ 3,123,808

See accompanying notes to these unaudited condensed consolidated financial statements.

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Mobivity Holdings Corp.

Condensed Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Revenues	$ 1,366,239	$ 2,238,680	$ 5,059,567	$ 4,351,984
Cost of revenues	756,130	599,736	1,549,519	1,157,126
Gross profit	610,109	1,638,944	3,510,048	3,194,858
Operating expenses				
General and administrative	770,591	845,928	2,018,934	1,863,893
Sales and marketing	792,263	868,473	2,253,843	1,836,185
Engineering, research, and development	422,660	1,073,189	1,954,258	1,901,234
Depreciation and amortization	98,728	99,458	195,698	168,203
Total operating expenses	2,084,242	2,887,048	6,422,733	5,769,515
Loss from operations	(1,474,133)	(1,248,104)	(2,912,685)	(2,574,657)
Other income/(expense)				
Interest income	146	1,012	602	1,916
Interest expense	(109,635)	(31,501)	(167,124)	(52,607)
Gain on sale of fixed assets	-	-	(8,722)	-
Foreign currency (loss) gain	(1,290)	(528)	(1,620)	(3,158)
Total other income/(expense)	(110,779)	(31,017)	(176,864)	(53,849)
Loss before income taxes	(1,584,912)	(1,279,121)	(3,089,549)	(2,628,506)
Income tax expense	-	-	-	-
Net loss	(1,584,912)	(1,279,121)	(3,089,549)	(2,628,506)
Other comprehensive loss, net of income tax				
Foreign currency translation adjustments	69,710	(10,643)	57,097	(15,864)
Comprehensive loss	$ (1,515,202)	$ (1,289,764)	$ (3,032,452)	$ (2,644,370)
Net loss per share - basic and diluted	$ (0.04)	$ (0.04)	$ (0.08)	$ (0.07)
Weighted average number of shares during the period - basic and diluted	38,018,733	36,391,063	37,952,427	36,390,030

See accompanying notes to these unaudited condensed consolidated financial statements.

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Mobivity Holdings Corp.

Consolidated Statement of Stockholders' Equity

	Common Stock Shares	Common Stock Dollars	Equity Payable	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance, December 31, 2016	36,388,997	$ 36,389	$ 100,862	$ 76,698,383	$ (32,999)	$ (74,673,471)	2,129,164
Issuance of common stock for options exercised	152,085	152	-	82,646	-	-	82,798
Issuance of common stock for restricted stock awards	484,058	484	-	(484)	-	-	-
Stock based compensation	-	-	-	1,130,297	-	-	1,130,297
Foreign currency translation adjustment	-	-	-	-	(32,765)	-	(32,765)
Net loss	-	-	-	-	-	(5,946,012)	(5,946,012)
Balance, December 31, 2017	37,025,140	$ 37,025	$ 100,862	$ 77,910,842	$ (65,764)	$ (80,619,483)	$ (2,636,518)
Issuance of common stock for cash	4,000,000	4,000	-	3,996,000	-	-	4,000,000
Issuance of common stock for warrant conversion	2,018,125	2,018	-	2,151,829	-	-	2,153,847
Issuance of common stock for debt conversion	1,047,583	1,047	-	1,088,439	-	-	1,089,486

Issuance of common stock for cashless warrant conversion	1,808	2	-	(2)	-	-	-
Issuance of common stock for options exercised	12,500	13	-	9,583	-	-	9,595
Stock based compensation	-	-	-	407,744	-	-	407,744
Foreign currency translation adjustment	-	-	-	-	57,097	-	57,097
Net loss	-	-	-	-	-	(3,089,549)	(3,089,549)
Balance, June 30, 2018	44,105,156	$ 44,105	$ 100,862	$ 85,564,435	$ (8,667)	$ (83,709,032)	$ 1,991,703

See accompanying notes to these unaudited condensed consolidated financial statements.

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Mobivity Holdings Corp.

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net loss	$ (3,089,549)	$ (2,628,506)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	118	(9,101)
Loss on conversion of debt	41,902	-
Amortization of deferred financing costs	-	12,237
Stock-based compensation	407,744	705,840
Amortization of debt discount	-	-
Loss on disposal of fixed assets	8,722	-
Depreciation and amortization expense	195,698	168,203
Adjustments due to ASC 606	(610,206)	-
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	142,646	551,557
Other current assets	(11,996)	(37,005)
Other assets	-	225
Accounts payable	(92,157)	96,247
Accrued interest	114,997	7,146
Accrued and deferred personnel compensation	141,430	(46,043)
Other liabilities - non-current	(259,623)	-
Other liabilities - current	(15,491)	(13,911)
Deferred revenue and customer deposits	819,339	825,089
Net cash provided by (used in) operating activities	(2,206,426)	(368,022)
INVESTING ACTIVITIES		
Purchases of equipment	(9,953)	(2,489)
Cash paid for patent	-	(9,780)
Capitalized software development costs	(175,614)	(294,199)
Net cash used in investing activities	(185,567)	(306,468)
FINANCING ACTIVITIES		
Payments on notes payable	(2,140,722)	-
Deferred financing costs	-	(15,000)

Proceeds from notes payable	2,095,000	46,410
Proceeds from issuance of common stock, net of issuance costs	6,163,443	29,750
Net cash provided by financing activities	6,117,721	61,160
Effect of foreign currency translation on cash flow	57,097	(255)
Net change in cash	3,782,825	(613,585)
Cash at beginning of period	460,059	1,188,485
Cash at end of period	$ 4,242,884	$ 574,900
Supplemental disclosures:		
Cash paid during period for:		
Interest	$ 109,635	$ 52,607
Non cash investing and financing activities:		
Issuance of common stock for cashless exercise	$ 2	$ -
Issuance of common stock for debt conversion	$ 1,047,584	$ -

See accompanying notes to these unaudited condensed consolidated financial statements.

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Mobivity Holdings Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Basis of Presentation

Mobivity Holdings Corp. (the “Company” or “we”) is in the business of developing and operating proprietary platforms over which brands and enterprises can conduct national and localized, data-driven mobile marketing campaigns. Our proprietary platforms, consisting of software available to phones, tablets, PCs, and Point of Sale (“POS”) systems, allow resellers, brands and enterprises to market their products and services to consumers through text messages sent directly to consumers via mobile phones, mobile smartphone applications, and dynamically printed receipt content. On January 15, 2016, we completed the acquisition of LiveLenz Inc., a Nova Scotia corporation (“LiveLenz”), a wholly-owned subsidiary. We generate revenue by charging the resellers, brands and enterprises a per-message transactional fee, through fixed or variable software licensing fees, or via advertising fees.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and disclosures required by GAAP for annual financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on April 11, 2018.

In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of our condensed consolidated financial statements as of June 30, 2018, and for the three and six months ended June 30, 2018 and 2017. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results for the full year ending December 31, 2018.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Accounts Receivable, Allowance for Doubtful Accounts and Concentrations

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

As of June 30, 2018 and December 31, 2017, we recorded an allowance for doubtful accounts of $6,966 and $2,280 respectively.

Goodwill and Intangible Assets

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

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

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

Software Development Costs

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

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

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

Impairment of Long-Lived Assets

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

Foreign Currency Translation

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

Revenue Recognition and Concentrations

Our re•ceipt and re•ach and customer relationship management are hosted solutions. We generate revenue from licensing our software to clients in our software as a service model, per-message and per-minute transactional fees, and customized professional services. We recognize license/subscription fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. We recognize revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. We consider authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting. Some customers are billed on a month-to-month basis with no contractual term and are collected by credit card. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. Cash received in advance of the performance of services is recorded as deferred revenue.

During the six months ended June 30, 2018, three customers accounted for 74% of our revenues. During the six months ended June 30, 2017, two customers accounted for 71% of our revenues.

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Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. We are required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the three and six months ended June 30, 2018, the comprehensive loss was $1,515,202 and $3,032,452 respectively.

Net Loss Per Common Share

Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. During the three and six months ended June 30, 2018 and 2017, we had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive.

Reclassifications

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

Recent Accounting Pronouncements

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

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

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

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

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

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

3. New Accounting Standards

Revenue from Contracts with Customers.

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

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

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

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

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

Software support	Ratable	Ratable
SaaS	Ratable	Ratable

The adoption of ASC 606 has an impact on the Company's Consolidated Statements of Operations and Consolidated Balance Sheets but has no impact on cash provided by or used in operating, financing, or investing activities on the Consolidated Statements of Cash Flows.

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Financial Statement Impact of Transition to ASC 606

As noted above, we transitioned to ASC 606 using the modified retrospective method on January 1, 2018. The cumulative effect of this transition to applicable contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to stockholders' equity as of that date. As a result of applying the modified retrospective method to transition to ASC 606, the following adjustments were made to the consolidated balance sheet as of January 1, 2018:

	December 31, 2017 As Reported	Adjustments due to ASC 606	Adjusted January 1, 2018
ASSETS			
Current assets			
Cash	$ 460,059	$ -	$ 460,059
Accounts receivable, net of allowance for doubtful accounts of $2,280 and $2,280, respectively	885,743	544,599	1,430,342
Other current assets	209,536	-	209,536
Total current assets	1,555,338	544,599	2,099,937
Goodwill	803,118	-	803,118
Intangible assets, net	676,436	-	676,436
Accounts receivable, long term	-	424,023	424,023
Other assets	88,916	-	88,916
TOTAL ASSETS	$ 3,123,808	$ 968,622	$ 4,092,430
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 1,096,003	$ -	$ 1,096,003
Accrued interest	1,168	-	1,168
Accrued and deferred personnel compensation	590,500	-	590,500
Deferred revenue and customer deposits	1,429,266	-	1,429,266
Notes payable, net - current maturities	2,236,224	-	2,236,224
Other current liabilities	226,355	191,121	417,476
Total current liabilities	5,579,516	191,121	5,770,637
Non-current liabilities			
Notes payable, net - long term	180,810	-	180,810
Other long term liabilities	-	150,477	150,477
Total non-current liabilities	180,810	150,477	331,287
Total liabilities	5,760,326	341,598	6,101,924
Commitments and Contingencies (See Note 9)			
Stockholders' equity			

Common stock, $0.001 par value; 100,000,000 shares authorized;			
37,025,140 and 37,025,140, shares issued and outstanding	37,025	-	37,025
Equity payable	100,862	-	100,862
Additional paid-in capital	77,910,842	-	77,910,842
Accumulated other comprehensive loss	(65,764)	-	(65,764)
Accumulated deficit	(80,619,483)	627,024	(79,992,459)
Total stockholders' equity	(2,636,518)	627,024	(2,009,494)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,123,808	$ 968,622	$ 4,092,430

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The following tables reflect the impact of adoption of ASC 606 on our condensed consolidated statements of operations for the three and six months ended June 30, 2018 and our condensed consolidated balance sheet as of June 30, 2018 and the amounts as if the Previous Standards were in effect ("Amounts Under Previous Standards"):

Condensed Consolidated Statement of Operations

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As reported	Total Adjustments Under ASC 606	Amounts Under Previous Standards	As reported	Total Adjustments Under ASC 606	Amounts Under Previous Standards
Revenues						
Revenues	$ 1,366,239	$ (206,115)	$ 1,572,354	$ 5,059,567	$ 1,442,616	$ 3,616,951
Cost of revenues	756,130	-	756,130	1,549,519	-	1,549,519
Gross profit	610,109	(206,115)	816,224	3,510,048	1,442,616	2,067,432
Operating expenses						
General and administrative	770,591	(10,275)	780,866	2,018,934	83,241	1,935,693
Sales and marketing	792,263	-	792,263	2,253,843	-	2,253,843
Engineering, research, and development	422,660	(92,478)	515,138	1,954,258	749,169	1,205,089
Depreciation and amortization	98,728	-	98,728	195,698	-	195,698
Total operating expenses	2,084,242	(102,753)	2,186,995	6,422,733	832,410	5,590,323
Gain (loss) from operations	(1,474,133)	(103,362)	(1,370,771)	(2,912,685)	610,206	(3,522,891)
Other income/(expense)						
Interest income	146	-	146	602	-	602
Interest expense	(109,635)	-	(109,635)	(167,124)	-	(167,124)
Gain on sale of fixed assets	-	-	-	(8,722)	-	(8,722)
	(1,290)	-	(1,290)	(1,620)	-	(1,620)

Foreign currency (loss) gain						
Total other income/(expense)	(110,779)	-	(110,779)	(176,864)	-	(176,864)
Loss before income taxes	(1,584,912)	(103,362)	(1,481,550)	(3,089,549)	610,206	(3,699,755)
Income tax expense	-	-	-	-	-	-
Net loss	(1,584,912)	(103,362)	(1,481,550)	(3,089,549)	610,206	(3,699,755)
Other comprehensive loss, net of income tax						
Foreign currency translation adjustments	69,710	-	69,710	57,097	-	57,097
Comprehensive loss	$ (1,515,202)	$ (103,362)	$ (1,411,840)	$ (3,032,452)	$ 610,206	$ (3,642,658)
Net loss per share - basic and diluted	$ (0.04)	$ -	$ (0.04)	$ (0.08)	$ 0.02	$ (0.10)
Weighted average number of shares during the period - basic and diluted	38,018,733	38,018,733	38,018,733	37,952,427	37,952,427	37,952,427

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Condensed Consolidated Balance Sheet

	June 30, 2018 As Reported	Total Adjustments Under ASC 606	Amounts Under Previous Standards
ASSETS			
Current assets			
Cash	$ 4,242,884	$ -	$ 4,242,884
Accounts receivable, net of allowance for doubtful accounts of $6,966	1,485,850	(742,500)	743,350
Other current assets	221,535	-	221,535
Total current assets	5,950,269	(742,500)	5,207,769
Goodwill	803,118	-	803,118
Intangible assets, net	670,636	-	670,636
Accounts receivable, long term	618,157	(618,157)	-
Other assets	89,532	-	89,532
TOTAL ASSETS	$ 8,131,712	$ (1,360,657)	$ 6,771,055
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 950,490	$ -	$ 950,490
Accrued interest	54,967	-	54,967
Accrued and deferred personnel compensation	713,695	-	713,695
Deferred revenue and customer deposits	2,248,449	-	2,248,449
Notes payable, net - current maturities	1,140,133	-	1,140,133
Other current liabilities	344,331	(329,052)	15,279
Total current liabilities	5,452,065	(329,052)	5,123,013
Non-current liabilities			
Notes payable, net - long term	214,260	-	214,260
Other long term liabilities	473,684	(421,399)	52,285
Total non-current liabilities	687,944	(421,399)	266,545
Total liabilities	6,140,009	(750,451)	5,389,558

Commitments and Contingencies (See Note 9)			
Stockholders' equity			
Common stock, $0.001 par value; 100,000,000 shares authorized;			
44,105,156 and 44,105,156, shares issued and outstanding	44,105	-	44,105
Equity payable	100,862	-	100,862
Additional paid-in capital	85,564,435	-	85,564,435
Accumulated other comprehensive loss	(8,667)	-	(8,667)
Accumulated deficit	(83,709,032)	(610,206)	(84,319,238)
Total stockholders' equity	1,991,703	(610,206)	1,381,497
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,131,712	$ (1,360,657)	$ 6,771,055

4. Goodwill and Purchased Intangibles

Goodwill

The carrying value of goodwill at June 30, 2018 and December 31, 2017 was $803,118.

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Intangible assets

The following table presents details of our purchased intangible assets as of June 30, 2018 and December 31, 2017:

	Balance at December 31, 2017	Additions	Impairments	Amortization	Fx and Other	Balance at June 30, 2018
Patents and trademarks	$ 118,178	$ -	$ -	$ (6,152)	$ (175)	$ 111,851
Customer and merchant relationships	153,448	-	-	(12,276)	-	141,172
Trade name	41,033	-	-	(3,337)	(85)	37,611
	$ 312,659	$ -	$ -	$ (21,765)	$ (260)	$ 290,634

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

Amortization expense for intangible assets was $11,096 and $12,177 for the three months ended June 30, 2018 and 2017, respectively.

Amortization expense for intangible assets was $21,765 and $21,500 for the six months ended June 30, 2018 and 2017, respectively.

The estimated future amortization expense of our intangible assets as of June 30, 2018 is as follows:

Year ending December 31,	Amount

2018	$ 21,580
2019	43,160
2020	45,304
2021	40,148
2022	40,148
Thereafter	100,294
Total	$ 290,634

5. Software Development Costs

The Company has capitalized certain costs for software developed or obtained for internal use during the application development stage as it relates to specific contracts. The amounts capitalized include external direct costs of services used in developing internal-use software and for payroll and payroll-related costs of employees directly associated with the development activities.

The following table presents details of our software development costs as of June 30, 2018 and December 31, 2017:

	Balance at December 31, 2017	Additions	Amortization	Balance at June 30, 2018
Software Development Costs	$ 363,777	$ 175,612	$ (159,387)	$ 380,002
	$ 363,777	$ 175,612	$ (159,387)	$ 380,002

Software development costs are being amortized on a straight-line basis over their estimated useful life of two years.

Amortization expense for software development costs was $80,372 and $81,822 for the three months ended June 30, 2018 and 2017, respectively.

Amortization expense for software development costs was $159,388 and $132,870 for the six months ended June 30, 2018 and 2017, respectively.

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The estimated future amortization expense of software development costs as of June 30, 2018 is as follows:

Year ending December 31,	Amount
2018	$ 329,478
2019	50,524
2020	-
2021	-
2022	-
Thereafter	-
Total	$ 380,002

6. Notes Payable and Interest Expense

The following table presents details of our notes payable as of June 30, 2018 and December 31, 2017:

Facility	Maturity	Interest Rate	Balance at June 30, 2018	Balance at December 31, 2017
BDC Term Loan	December 15, 2018	12%	$ 359,244	$ 358,466
ACOA Note	May 1, 2021	-	165,149	175,632
SVB Working Capital Line of Credit Facility	March 30, 2018	Variable	-	1,882,936
Bridge Loan Promissory Note		24%	750,000	-
Related Party Note	March 31, 2020	15%	80,000	-
Total Debt			1,354,393	2,417,034
Debt discount			-	7,786
Less current portion			(1,140,133)	(2,244,010)
Long-term debt, net of current portion			$ 214,260	$ 180,810

BDC Term Loan

On January 8, 2016, Livelenz, a wholly-owned subsidiary of the Company, entered into an amendment of their original loan agreement dated August 26, 2011 with the Business Development Bank of Canada (“BDC”). Under this agreement the loan will mature, and the commitments will terminate on December 15, 2018.

ACOA Note

On April 29, 2016, Livelenz, a wholly-owned subsidiary of the Company, entered into an amendment of the original agreement dated December 2, 2014 with the Atlantic Canada Opportunities Agency ("ACOA"). Under this agreement the note will mature, repayments began on June 1, 2016, and the commitments will terminate on May 1, 2021.

Bridge Loan Promissory Note

On April 19, 2018, the Company entered into a bridge financing agreement ("Promissory Note") for up to $1,000,000. The Promissory Note carries an interest rate of 2% per thirty days and a facility fee of 1% of the maximum loan amount. Under this agreement the note automatically renews every thirty days until paid in full. As of June 30, 2018, the outstanding principal balance of this Promissory Note was $750,000.

Related Party Note

During February 2018, we conducted a private placement of Unsecured Promissory Notes (individually, a "Note" and collectively, the "Notes"). Each Note bears interest on the unpaid balance at the rate of fifteen percent (15%) per annum and the principal and accrued interest is due and payable no later than March 31, 2020. The Company may prepay any of the Notes without notice, subject to a two percent (2%) pre-payment penalty. We sold Notes in the aggregate principal amount of $1,080,000, including $880,000 of Notes purchased by certain officers and directors of the Company. The Note offer was conducted by our management and there were no commissions paid by us in connection with the solicitation. In June 2018, the holders of Notes in the principal amount of $1,000,000, including $800,000 of Notes held by certain officers and directors, canceled $1,000,000 of principal and $47,583 of accrued interest for 1,047,583 shares of our common stock at the rate of $1.00 per share.

SVB Working Capital Line of Credit Facility

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In March 2016, we entered into a Working Capital Line of Credit Facility (the “Facility”) with Silicon Valley Bank (“SVB”) to provide up to $2 million to finance our general working capital needs. The Facility is funded based on cash on deposit balances and advances against our accounts receivable based on customer invoicing. Interest on Facility borrowings is calculated at rates between the prime rate minus 1.75% and prime rate plus 3.75% based on the borrowing base formula used at the time of borrowing. The Facility contains standard events of default, including payment defaults, breaches of representations, breaches of affirmative or negative covenants, and bankruptcy. As of March 31, 2018, this Facility was paid off and closed.

Under the terms of the Facility, the Company is obligated to pay a commitment fee on the available unused amount of the Facility commitments equal to 0.5% per annum.

The Company capitalized debt issuance costs of $42,287 as of June 30, 2018 related to the Facility, which have been amortized on a straight-line basis to interest expense over the two-year term of the Facility. As of March 31, 2018, the Company has fully amortized these costs.

Interest Expense

Interest expense was $109,635 and $31,501 during the three months ended June 30, 2018 and 2017, respectively.

Interest expense was $167,124 and $52,607 during the six months ended June 30, 2018 and 2017, respectively.

7. Stockholders’ Equity

Common Stock

The total number of shares of common stock, $0.001 par value, that the Company is authorized to issue is 100,000,000.

The Company issued shares of common stock of 7,080,016 and 636,143 related to restricted stock awards during the six months ended June 30, 2018 and the year ended December 31, 2017, respectively. The Company issued 152,085 shares related to exercises of stock options and 484,058 restricted stock awards in the year ended December 31, 2017.

On February 7, 2018, the Company issued 12,500 shares of our common stock, at a price of $0.78 per share, for the gross proceeds of $9,595 in conjunction with one employee that exercised vested stock options.

On February 23, 2018, the Company issued 1,808 shares of our common stock in a cashless transaction related to a 25,000 warrant exercise.

During the three months ended March 31, 2018, the Company issued 2,018,125 shares of common stock for $2,018,125 related to the exercise of certain warrants.

In June 2018, the Company commenced a private placement of its common shares at an offering price of $1.00 per shares. As of June 30, 2018, the Company had sold 5,047,583 shares of its common stock for gross proceeds of $5,047,583 including $4,000,000 of cash and the cancellation of $1,000,000 of principal, $47,583 of accrued interest, and a loss on conversion of $41,902 under its February 2018 private placement Notes (See Note 6).

As of June 30, 2018, and December 31, 2017 we had an equity payable balance of $100,862 and $100,862, respectively.

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Stock-based Plans

Stock Option Activity

The following table summarizes stock option activity for the year ended December 31, 2017 and for the six months ended June 30, 2018:

	Options
Outstanding at December 31, 2016	5,757,880
Granted	3,027,500
Exercised	(152,085)
Forfeit/canceled	(1,451,053)
Expired	(363,294)
Outstanding at December 31, 2017	6,818,948
Granted	550,000
Exercised	(12,500)
Forfeit/canceled	(1,162,319)
Expired	(1,229,878)
Outstanding at June 30, 2018	4,964,251

The weighted average exercise price of stock options granted during the period was $0.72 and the related weighted average grant date fair value was $0.52 per share.

2018

On February 7, 2018, the Company issued 12,500 shares of our common stock, at a price of $0.78 per share, for the gross proceeds of $9,595 in conjunction with one employee that exercised vested stock options.

On March 26, 2018, the Company granted one employee a total of 300,000 options to purchase shares of the Company common stock at the closing price as of March 26, 2018 of $1.10 per share. The Option Shares will vest ratably over forty-eight (48) months. and are exercisable until March 26, 2028. The total estimated value using the Black-Scholes Model, based on a volatility rate of 102% and an option fair value of $.88 was $265,575.

In the three months ended June 30, 2018, the Company granted seven employees a total of 250,000 options to purchase shares of the Company common stock at prices ranging from $0.90 to $1.40 per share. The options vest 25% on the first anniversary of the grant, then equally in 36 monthly installments thereafter and are exercisable until 2028. The total estimated value using the Black-Scholes Model, based on a volatility rate of 84% and an option value of $0.82 was $235,452.

Stock-Based Compensation Expense from Stock Options and Warrants

The impact on our results of operations of recording stock-based compensation expense for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
General and administrative	$ 62,187	$ 224,817	$ 217,851	$ 447,361
Sales and marketing	55,617	31,440	124,097	63,604
Engineering, research, and development	37,098	55,749	65,796	75,935
	$ 154,902	$ 312,006	$ 407,744	$ 586,900

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Valuation Assumptions

The fair value of each stock option award was calculated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for the six months ended June 30, 2018 and 2017.

	Six Months Ended June 30,	
	2018	2017
Risk-free interest rate	2.68%	2.04%
Expected life (years)	6.00	6.00
Expected dividend yield	-	-
Expected volatility	101.94%	85.63%

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

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

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

The expected volatility in 2018 and 2017 is based on the historical publicly traded price of our common stock.

Restricted stock units

The following table summarizes restricted stock unit activity under our stock-based plans for the year ended December 31, 2017 and for the six months ended June 30, 2018:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	994,417	$ 0.72	0.08	$ 731,845
Awarded	199,513	$ 0.73	0.70	$ -
Released	(484,058)	$ -	-	$ -
Canceled/forfeited/expired	(47,072)	$ 0.72	-	$ -
Outstanding at December 31, 2017	662,800	$ 0.72	0.70	$ 795,360
Awarded	-	$ -	-	$ -
Released	-	$ -	-	$ -
Canceled/forfeited/expired	-	$ -	-	$ -
Outstanding at June 30, 2018	662,800	$ 0.33	0.75	$ 516,984
Expected to vest at June 30, 2018	662,800	$ -	-	$ 516,984
Vested at June 30, 2018	417,770	$ -	-	$ 325,861
Unvested at June 30, 2018	245,030	$ -	-	$ 191,123
Unrecognized expense at June 30, 2018	$ 162,687			

Stock Based Compensation from Restricted Stock

The impact on our results of operations of recording stock-based compensation expense for restricted stock units for the three and six months ended June 30, 2018 and 2017 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
General and administrative	$ 8,702	$ 56,416	$ 30,546	$ 118,940
	$ 8,702	$ 56,416	$ 30,546	$ 118,940

As of June 30, 2018, there was unearned restricted stock unit compensation as described in the tables above. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel all or a portion of the remaining unearned restricted unit compensation expense. Future unearned restricted unit compensation will increase to the extent we grant additional equity awards.

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Warrants Issued to Investors and Placement Agents

At June 30, 2018, we had warrants to purchase 4,529,164 shares of common stock at $1.20 per share and 605,185 at $1.00 per share, respectively, which are outstanding. Of this amount, warrants to purchase 2,762,868 shares expire in 2018, warrants to purchase 1,558,356 shares expire in 2019, and warrants to purchase 813,125 shares expire in 2020.

8. Fair Value Measurements

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

The following table presents assets that are measured and recognized at fair value as of June 30, 2018 on a recurring and non-recurring basis:

Description	Level 1	Level 2	Level 3	Gains (Losses)
Goodwill (non-recurring)	$ -	$ -	$ 803,118	$ -
Intangibles, net (non-recurring)	$ -	$ -	$ 670,636	$ -

The following table presents assets that are measured and recognized at fair value as of December 31, 2017 on a recurring and non-recurring basis:

Description	Level 1	Level 2	Level 3	Gains (Losses)
Goodwill (non-recurring)	$ -	$ -	$ 803,118	$ -
Intangibles, net (non-recurring)	$ -	$		