MOBIVITY HOLDINGS CORP.
Form 10-K
April 15, 2019

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

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 North Arizona Place, #310

Chandler, Arizona 85225

(Address of Principal Executive Offices and Zip Code)

(877) 282-7660

(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:

None

Securities registered pursuant to section 12 (g) of the Act:

Common Stock, $.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x
		Emerging growth 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 x

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2018 was $33,416,152.

As of March 15, 2019, the registrant had 45,998,053 shares of common stock issued and outstanding.

MOBIVITY HOLDINGS CORP.

ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED DECEMBER 31, 2018

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Form 10-K, contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. The forward-looking statements are contained principally in Item 1—"Business," Item 1.A—"Risk Factors" and Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" but appear throughout the Form 10-K. Examples of forward-looking statements include, but are not limited to our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "opportunity," "plan," "potential," "predicts," "seek," "should," "will," or "would," and similar expressions and variations or negatives of these words. These forward-looking statements are based on the expectations, estimates, projections, beliefs and assumptions of our management based on information currently available to management, all of which are subject to change. Such forward-looking statements are subject to risks, uncertainties and other factors that are difficult to predict and could cause our actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below in Item 1.A – "Risk Factors". Furthermore, such forward-looking statements speak only as of the date of this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements to reflect events or circumstances after the date of such statements for any reason, except as otherwise required by law.

Part I

Item 1. Business

General Information

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 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 the consumers via mobile phones, mobile smartphone applications, and dynamically printed receipt content. 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. We help personal care, restaurant and retail brands realize their strategy of growing their business by increasing customer frequency, engagement and spend. Mobivity's analytics services and products provide solutions that allow brands to take validated marketing actions across all channels, based on real customer behavior to create personalized, relevant, localized and targeted campaigns. With national clients such as Subway, Sonic, Chick-fil-A, and Baskin-Robbins, Mobivity's goal is to unlock the power of internal and external customer data to create a system that provides data driven insight to continually adapt and enhance communications with customers.

According to the U.S. Census Bureau, only 7% of commerce in the US occurs online which means 93% is still happening in the physical world. We believe that brands, and in particular restaurant and retail brands, need a better way to tie marketing activities to customer purchases, and then use the information to build a more relevant, personal experience for each customer, at a local and national level. Mobivity is giving brands the ability to connect (and measure) marketing communications in the physical world by unlocking POS and mobile data and marrying it with other traditional tactics to create a closed loop: in some cases, increasing response rates from 0.05% to 5% (or greater); improving online advertising conversion by 10X; and increasing revenue per ad by more than 2.5X.

Mobivity's solution addresses the offline marketing problem and makes personalized marketing automation possible for offline commerce. Digital marketing is highly dynamic and personally targeted. According to studies published by McKinsey & Company, Point Drive, and the National Advertising Institute, targeted advertising generates conversion rates more than eleven times higher than non-targeted advertising, more than double the revenue per advertisement, and is 250% more efficient than non-targeted advertising. Combined with purchase data and analytics gathered by Mobivity's products and platforms, Mobivity customers are able to quickly transform traditionally low marketing campaign response rates to exponentially higher response rates.

Recurrency

Mobivity's Recurrency platform (formerly "SmartSuite") unlocks valuable POS and mobile data to help transform customer transactions into actionable and attributable marketing insights. Our technology provides transactional data, in real-time, that uncovers market-basket information and attributes both online and traditional promotions. Recurrency is comprised of Recapture, Recognition, Receipt, Reach, Reup, and Belly Loyalty.

Recapture

Mobivity's Recurrency begins with Recapture, which can capture, normalize, integrate, and store transaction data for almost any POS system. This provides a clean useful dataset upon which to predict and influence your customers' buying behavior and deliver basket-level insights to your business.

Recognition

Mobivity's Recognition is comprised of various reporting and analytics tools to uncover patterns in the buying behaviors of consumers and leverages that data to suggest pricing optimizations, and guide marketing campaigns.

Receipt

Mobivity's Receipt unlocks the power of transactional data to create relevant and timely customer messages. Both clients and agencies are using Receipt to drive better results and make decisions around offers, promotions, and customer engagement through the medium of the printed receipt. Our Receipt solution enables our customers with the ability to control the content on receipts printed from their point of sale, or POS system. Receipt is a software application that is installed on the POS, or directly onto receipt printer platforms, such as Epson's OmniLink product, which dynamically controls what is printed on receipts such as coupons, announcements, or other calls-to-action, such as invitations to participate in a survey. Receipt includes a Web-based interface where users can design receipt content and implement business rules to dictate what receipt content is printed in particular situations. All receipt content is also transmitted to Receipt's server back-end for storage and analysis via Recognition.

Reach

Mobivity's Reach transforms standard short message service ("SMS") and multimedia messaging service ("MMS") messaging into a data-driven marketing medium. Mobivity's Reach tracks and measures offer effectiveness at a more granular level than anything available in the industry, allowing clients to create smarter offers and drive higher redemption rates. Our proprietary platform connects to all wireless carriers so that any consumer, on any wireless service (for example, Verizon), can join our customer's SMS/MMS mobile marketing campaign. Once the consumer has subscribed to our customer's SMS/MMS mobile marketing campaign, our Web-based software solution serves as a tool by which our customers can initiate messages and other communications back to their subscribed consumers, as well as configure and administer their mobile marketing campaigns.

Reup

Mobivity's Reup aids marketing to align focusing its attention on engaging the customer and trying to change their buying behavior. Reup allows clients to begin including, and rewarding, employee behavior as a key method to effect customer behavior and drive more revenue. By focusing on small changes - upsizing drinks, adding desserts, and promoting limited time offers - employees can have a dramatic impact on sales.

Belly Loyalty

Mobivity's Belly Loyalty program focuses on a customer engagement with a customer-facing digital rewards platform via an app and digital pad. As a result of the Belly acquisition, Mobivity now has: a highly rated app ("Belly - Rewards Everyday") on IOS and Android that leverages geolocation; an email messaging system that connects our clients to our customers; a loyalty program that rewards customer frequency.

Company Strategy

Our objective is to build an industry-leading Software-as-a-Service (SaaS) product that connects consumers to merchants and brands. The key elements to our strategy are:

· *Exploit the competitive advantages and operating leverage of our technology platform.* The core of our business is our proprietary Recapture POS technology. Several years of development went into designing Recapture such that the process of intercepting POS data and performing actions, such as controlling the receipt printer with receipt is scalable, portable to a wide variety of POS platforms, and does not impact performance factors including the print speed of a typical receipt printer. Furthermore, we believe the transmission of POS data to Mobivity's cloud-based data stores presents a very competitive and innovative method of enabling POS data access. Additionally, we believe that our Reach platform is more advanced than technologies offered by our competitors and provides us with a significant competitive advantage. With more than ten years of development, we believe that our platform operates SMS/MMS text messaging transactions at a "least cost" relative to competitors while also being capable of supporting SMS/MMS text messaging transactional volume necessary to support our goal of several thousand end users. Leveraging our Recognition platform with Reach allows for full attribution of SMS/MMS offers, which we believe is a unique combination of both SMS/MMS text messaging and POS data.

• *Evolve our sales and customer support infrastructure to uniquely serve very large customer implementations such as franchise-based brands who operate a large number of locations.* Over the past few years we have focused our efforts on the development of our technology and solutions with the goal of selling and supporting small and medium-sized businesses. Going forward, we intend to increase significantly our investments in sales and customer support resources tailored to selling to customers that operate franchise brands. Today we support more than 30,000 merchant locations globally.

• *Acquire complementary businesses and technologies.* We will continue to search and identify unique opportunities which we believe will enhance our product features and functionality, revenue goals, and technology. We intend to target companies with some or all of the following characteristics: (1) an established revenue base; (2) strong pipeline and growth prospects; (3) break-even or positive cash flow; (4) opportunities for substantial expense reductions through integration into our platform; (5) strong sales teams; and (6) technology and services that further build out and differentiate our platform. Our acquisitions have historically been consummated through the issuance of a combination of our common stock and cash.

• *Build our intellectual property portfolio*. We currently have seven issued patents that we believe have significant potential application in the technology industry. We plan to continue our investment in building a strong intellectual property portfolio.

While these are the key elements of our current strategy, there can be no guarantees that our strategy will not change or that our strategy will be successful.

Recent Developments

We have entered into the following material transactions since January 1, 2017.

2017 Customer Contract Renewal and Expansion

On June 30, 2017 we renewed and expanded our partnership with one of our largest customers to foster additional customer engagement and long-term growth through utilization of Mobivity’s Reach solution. With personalized customer communications via text/social messaging (Reach), and optimized business performance (Recognition), we have crafted a complete and self-optimizing solution for increasing customer acquisition, frequency and spend.

The renewed and expanded partnership utilizes the Mobivity platform for all of our customer's locations for a term of five years, and includes a co-marketing commitment from both companies to ensure the continued growth in consumer subscribers to the program. The five-year term includes a six figure monthly minimum commitment that is prepaid to Mobivity on an annual basis.

2018 Warrant Exercise

Between January 19, 2018 and March 31, 2018, we conducted an offer to the holders of our outstanding common stock purchase warrants pursuant to which our warrant holders will be permitted to exercise their warrants at a reduced exercise price for a period expiring on March 31, 2018. At the commencement of the warrant offer, there were warrants outstanding that entitled their holders to purchase 5,134,349 shares of our common stock at exercise prices of $1.00 and $1.20 per share. Pursuant to the offer, warrant holders exercised warrants to purchase 1,898,015 shares of our common stock, resulting in additional capital of $1,898,015. We undertook this limited-time warrant exercise price reduction in order to raise additional capital without incurring further potential dilution to our stockholders. In addition, through the warrant holders' acceptance of our offer, we could significantly reduce the number of outstanding warrants and thereby simplify our capital structure. The warrant offer was conducted by our management and there were no commissions paid by us in connection with the solicitation.

Unsecured Promissory Note Investments in 2018

During February 2018, we conducted a private placement of Unsecured Promissory Notes (individually, a "*Note*" and collectively, the "*Notes*") in the aggregate principal amount of $1,080,000 to certain investors, officers and directors of the Company. 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 December 1, 2018. We may prepay any of the Notes without notice, subject to a two percent (2%) pre-payment penalty. The Note offer was conducted by our management and there were no commissions paid by us in connection with the solicitation.

June 2018 Private Placement

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In June and July 2018, we conducted a private placement of our common shares at an offering price of $1.00 per shares. We had sold a total of 6,822,583 shares of our common stock for gross proceeds of $6,822,583 including $5,775,000 of cash and the cancellation of $1,000,000 of principal $47,583 of accrued interest under our February 2018 private placement Notes.

November 2018 Acquisition of Certain Belly, Inc Assets

On November 14, 2018, we entered into an Asset Purchase Agreement with Belly, Inc., a Delaware corporation, pursuant to which we purchased from Belly, certain operating assets relating to Belly's proprietary digital customer loyalty platform, including client contracts, accounts receivable and intellectual property, in exchange for our payment of $3,000,000, subject to working capital adjustments. Belly was founded in 2001 and was originally funded by Andreessen Horowitz, Lightbank, NEA, DAG Ventures, Cisco and 7-Ventures, LLC (a subsidiary of 7-Eleven, Inc). Belly is a platform-first technology company enabling businesses of all sizes to create digital connections that result in personal relationships with their customers. Belly's platform has been deployed to more than 5,000 merchant locations and 7 million consumers. Our acquisition of the Belly assets is expected to be accretive to our top and bottom line revenue figures. The Asset Purchase Agreement contains customary representations, warranties and indemnities on the part of Belly. The closing of the acquisition took place on November 14, 2018, subject to usual and customary closing conditions. We financed the acquisition through our cash on hand.

In connection with our acquisition of the Belly assets, on November 14, 2018, we entered into a Loan and Security Agreement with Wintrust Bank. The Loan and Security Agreement provides for a single-term loan to us in the original principal amount of $1,000,000. Interest accrues on the unpaid principal amount at the rate of prime plus 1.5%. The loan is a three-year loan and is interest-only payable for the first six months of the loan. Commencing on May 1, 2019, we will commence monthly payments of principal in the amount of $33,333.33 in addition to the monthly payment of accrued interest. The loan is secured by all of our assets other than our intellectual property. We used the proceeds of the loan to re-finance a loan in the principal amount of $1,000,000 we assumed as part of the acquisition of the Belly assets.

Industry Background

Traditionally only sophisticated e-commerce brands, such as Amazon, were capable of personalizing and targeting their marketing to consumers as they navigated online shopping experiences that tracked their every move, all the way to check out. But despite the scale and success of e-commerce, it still accounts for just around 10% of commerce conducted in the U.S. The other 90% of "offline" merchants struggle to leverage data to combine with digital marketing channels and replicate the same personalized marketing tactics employed by successful e-commerce operators. Particularly, merchants are challenged with connecting purchase data collected by traditional point-of-sale terminals and mapping those transactions back to consumers to ensure that follow on marketing messages are personalized to the consumers purchase history.

Offline marketers will increasingly invest in technologies that leverage data to power personalized, digital consumer experiences and mimic how e-commerce marketers operate. This is a trend that has growing support from various industry analysts as well. McKinsey recently reported that “data activated marketing” can boost sales 15%-20% and significantly improve the ROI on marketing spend across marketing channels. While the upside of data driven marketing may seem obvious, marketers are also converging their digital and offline worldviews when it comes to thinking about how they allocate their marketing budgets. Gartner’s 2015–2016 Chief Marketing Officer (CMO) Spend Survey reported that 98 percent of CMOs no longer make a clear distinction between marketing online and offline and say the disciplines are merging. We believe that these trends reveal a material insight into how the market is converging towards our value proposition and will further propel our growth; as the market increasingly convinces itself of the upside of targeting its marketing based off of consumer data, as suggested by the McKinsey study, and the Gartner study suggests that offline and digital marketing disciplines are merging, then our unique approach to merging offline point-of-sale data with digital channels.

Data driven marketing will also leverage the rapidly emerging field of “cognitive computing,” where computers are becoming intelligent – often referred to as “artificial intelligence”. Google CEO, Sundar Pichai, has described how Google is shifting from a mobile first world, to an AI first world; and actions speak louder than words - Google has acquired more artificial intelligence startups than Facebook and Microsoft combined. A recent forecast by Tractica (a market intelligence firm that focuses on human interaction with technology) suggests that annual worldwide AI revenue will grow at a combined annual growth rate of more than 49% to $36.8 billion by 2025. One of the key drivers to progress in this field is called “machine learning,” which aims to give computers the ability to learn without being explicitly programmed. This could open up entirely new possibilities where marketing becomes not just automated, but autonomous and entirely free of human intervention. Machine learning is powered by collecting massive amounts of data that can “train” machines to think on their own; an article in Fortune last year went as far as calling “data the new oil”. Jim Hare, research vice president at Gartner, proclaimed "As AI accelerates up the Hype Cycle, many software providers are looking to stake their claim in the biggest gold rush in recent years.”

The Mobivity Solution

Our Recurrency platform is designed to leverage point-of-sale data, along with cognitive computing, to increase visits, spend, and loyalty from consumers. We do this by **capturing** transaction detail, **analyzing** the data, and **motivating** customers and employees to take actions that improve business performance.

• *Capture*: Recall that more than 90% of our economy still functions “offline”. Our Recapture solution plays an integral part in bringing brick and mortar businesses into the digital future by creating an extensible point of access to their POS data. Recapture is a lightweight software client that can be installed in just about any POS system and immediately enables applications to operate off of real-time POS data. While our Reach and Receipt products utilize the data feed from Recapture, third party applications and other analytics tools can also leverage Recapture to expand their capabilities.

• *Analyze*. Often times marketers spend a large portion of their budget on marketing programs with little to no visibility into attributable sales. A 2016 IAB/Winterberry study reported cross-channel measurement and attribution would be the No. 1 tactic occupying respondents’ time last year, a whopping 63 percent year-over-year increase from the previous year. This is because understanding consumers’ offline behavior is mission-critical for brands and agencies looking to bridge the gap between the online and offline worlds. Our Recognition solution allows for easy access to POS data enabling full attribution of our Reach or Receipt campaigns, along with potentially linking offline POS data to other forms of digital marketing such as social or search advertising.

• *Motivating Consumers*. We motivate consumers and employees to improve business performance through our Receipt, Reach, and Reup applications that are powered by the POS data captured by Recapture, and analyzed by Recognition. This is where our ability to engage consumers through their mobile phone and track their behavior to any of these offline cash registers, combines with machine learning and artificial intelligence techniques to dial-in targeted marketing engagements that cause consumers to spend more. Our Reach solution has engaged more than nine million consumers across more than 30,000 retail locations while examining billions of purchase transactions. In one study, we worked with the analytics and data team of one of our largest clients where we studied the behavior of consumers both before and after their enrollment in a Reach marketing program. Together, we took a universe of hundreds of thousands of consumers and examined their purchases for a period of time before they joined the Reach program. We then tracked their purchases after they joined the program and learned that these consumers increased their overall spend by forty five percent. Restaurant’s fight tooth and nail for every 1% increase in spend, so this was an amazing result. Another brand challenged us to increase their customer frequency which had historically been an average of just one visit every 60 days. By leveraging our Receipt platform we were able to create a targeted offer program that printed coupons on consumers’ receipts. In some cases, consumers returned in eight days – far better than the historical average of 60 days. Within 90 days since launching the program, consumers are returning within days (instead of months) and the program is on pace to generate an ROI of more than 400%.

In the future, we intend to develop additional platform features with the goal of driving additional value by helping brick and mortar brands leverage POS data to drive business growth.

Marketing and Sales

We market and sell the services offered over our proprietary platform directly through our own sales force, via resellers, and in some cases through agents.

- *Direct Sales.* Our direct sales force is predominantly comprised of a small team of representatives employed by us to promote and sell our services in various geographical areas.

- *Resellers.* We sell our services via wholesale pricing of licensing and transactional fees to various resellers who market and sell the Mobivity services under their own brand.

- *Agents.* We also engage independent agents to market and sell our services under the Mobivity brand in return for payment of a commission or revenue share for customers they introduce to us.

- In addition to our direct and indirect sales channels, we also market our services online through our Website, Facebook, Twitter, LinkedIn, and other online channels. We also participate in various trade and industry events to build awareness and promote exposure to our services and brand.

Our services are predominantly marketed and sold in the form of a recurring software licensing fee that is determined by desired features and the number of physical locations our customers would like to deploy the services in. For example, a customer who exclusively utilizes our Reach feature for one location will pay a much lower recurring licensing fee that a marketer who desires our full breadth of product features and needs to drive localized marketing campaigns across 50 locations in various cities or locales.

In addition to license fees, we also arrange for a transaction fee in special cases where our customers require greater bandwidth or throughput to process large volumes of Reach-powered mobile messaging transactions. For example, a customer may want to utilize our services for a major sporting event when there may be tens of thousands of fans who are expecting a “score alert” sent to their mobile phone via a SMS/MMS text message. In this case, the required resources to facilitate a large number of SMS/MMS messages in a short period of time is much higher and therefore we may charge an additional per-SMS/MMS text message fee to our customer.

Research and Development

We have developed an internal and external software development team with many years of experience in the mobile advertising and marketing industries. Our research and development activities are focused on enhancements to our platform, including extending our technology into payment processing, location-based services, application analytics, and other technical opportunities in the evolving mobile industry.

Our total engineering, research and development expenditures in 2018 and 2017 were $4,022,159 and $4,201,647, respectively.

Competition

Combining POS data, cognitive computing, and various marketing applications is relatively new. The majority of our competitors are start-ups or early stage growth companies helping to pioneer the technology necessary to extract POS data and integrate that data with technology channels such as mobile messaging, e-mail, social media, and others. Competitors in this arena include Fishbowl Marketing, Bridg, Sparkfly, and PosIQ.

We also believe that POS manufacturers could also pose a competitive threat by vertically integrating similar features and capabilities into their core products. Leading vendors in the POS space include Oracle/Micros, NCR, IBM, Square, First Data/Clover, and others.

We believe that the key competitive factors that differentiate us from our competitors include:

• *Intellectual Property*. We currently own seven patents that cover various approaches to facilitating SMS/MMS text messaging solutions and manipulating receipt content.

· *Competitive pricing*. We are unaware of any solution in the market that offers the ability to aggregate and analyze POS data (Recognition), activate mobile messaging campaigns (Reach), convert print receipts into targeted marketing transactions (Receipt), and shape employee performance in real-time (Reup) all from a single platform (Recurrency). Our platform approach will allow for bundled pricing strategies, or a la carte tactics, that could create unfair pricing advantages.

· *Scalability*. We believe that our platform is more scalable than most if not all of our competitors. We have scaled from around 1,000 POS integrations to more than 20,000 in just three years. Aside from the POS manufacturers themselves, we are unaware of any other solutions provider who is currently integrated with as many POS devices as we are.

Seasonality

Our business, as is typical of companies in our industry, is highly seasonal. This is primarily due to traditional marketing and advertising spending being heaviest during the holiday season while brands, advertising agencies, mobile operators and media companies often close out annual budgets towards the end of the calendar year. Seasonal trends have historically contributed to, and we anticipate, will continue to contribute to fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

Intellectual Property

We regard the protection of our developed technologies and intellectual property rights as an important element of our business operations and crucial to our success. We rely primarily on a combination of patent laws, trademark laws, copyright laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technology. We require our employees, consultants and advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except under specific circumstances. In the case of our employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property. The development of our technology and many of our processes are dependent upon the knowledge, experience and skills of key scientific and technical personnel.

As of the date of this report we own seven patents. U.S. Patent numbers *7,991,388 B1* and *8,244,216 B1* were issued on August 2, 2011 and August 14, 2012, respectively. These patents cover a geo-bio-metric personal identification number, a service that authenticates a user from a feature phone or smart phone using a number of mobile attainable attributes: geolocation, facial image, accelerometer (which measures the physical orientation or movement of the device itself), and text messaging. The purpose of the geo-bio-metric PIN service is to authenticate a user while verifying the following: the user is currently using his or her other phone; the user is at the location that their phone is at; the user is not at another location and using their phone through a proxy; and an impostor is not using the phone.

In March 2011, we acquired US Patent number *6,788,769 B1* which covers a method and system for using telephone numbers as a key to address email and online content without the use of a look-up database. Using this system, a phone number is used to access a website or an email address in exactly the same way it is used to dial a telephone.

U.S. Patent numbers *8,463,306* and *8,818,434* were issued on June 11, 2013 and August 26, 2014, respectively. U.S. Patent *9,307,430* was issued on April 5, 2016. These patents cover a method and system for testing a SMS/MMS text messaging network. The method and system allows for real-time testing of the initiation and completion of SMS/MMS text messages and any delivery delays across the major American mobile phone carriers, and accurately measures the progress on SMS/MMS broadcasts and records when a broadcast has been completed.

U.S Patent number *3,836,444* was granted on September 29, 2016. U.S. Patent *9,727,853* was issued on August 8, 2017. These patents cover a system to generate value added messages on receipts printed by point-of-sale (POS) systems based on various rules determined by information conveyed on the purchase receipt such as location, time of day, or other purchase data. The patent application claims priority to a patent application filed in 2006.

Our issued and any future patents that we may issue may not survive a legal challenge to their scope, validity or enforceability, or provide significant protection for us. The failure of our patents, or the failure of our copyright and trade secret laws to adequately protect our technology, might make it easier for our competitors to offer similar products or technologies. In addition, patents may not issue from any of our current or any future applications.

Government Regulation

The growth and development of the mobile messaging market and the market for electronic storage of personal information has resulted in a variety of stringent consumer protection laws, many of which impose significant burdens on companies that store personal information. Depending on the products and services that they offer, mobile data service providers may be subject to regulations and laws applicable to providers of mobile, Internet and VOIP services, including domestic and international laws and regulations relating to user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, telecommunications, mobile, television and intellectual property ownership and infringement. We expect that the regulation of our industry generally will continue to increase and that we will be required to devote increasing amounts of legal and other resources to address this regulation. In addition, the application of existing domestic and international laws and regulations relating to issues such as user privacy and data protection, marketing, advertising, consumer protection and mobile disclosures in many instances is unclear or unsettled.

In addition to its regulation of wireless telecommunications providers generally, the U.S. Federal Communications Commission, or FCC, has examined, or is currently examining, how and when consumers enroll in mobile services, what types of disclosures consumers receive, what services consumers are purchasing and how much consumers are charged. In addition, the Federal Trade Commission, or FTC, has been asked to regulate how mobile marketers can use consumers' personal information. Consumer advocates claim that many consumers do not know when their information is being collected from cell phones and how such information is retained, used and shared with other companies. Consumer groups have asked the FTC to identify practices that may compromise privacy and consumer welfare; examine opt-in procedures to ensure consumers are aware of what data is at issue and how it will be used; investigate marketing tactics that target children; and create policies to halt abusive practices. The FTC has expressed interest, in particular, in the mobile environment and services that collect sensitive data, such as location-based information.

The principal laws and regulations that pertain to us and our customers in connection with their utilization of our platform, include:

· *Deceptive Trade Practice Law in the U.S.* The FTC and state attorneys general are given broad powers by legislatures to curb unfair and deceptive trade practices. These laws and regulations apply to mobile marketing campaigns and behavioral advertising. The general guideline is that all material terms and conditions of the offer must be "clearly and conspicuously" disclosed to the consumer prior to the buying decision. The balancing of the desire to capture a potential customer's attention, while providing adequate disclosure, can be challenging in the mobile context due to the lack of screen space available to provide required disclosures.

• *Behavioral Advertising.* Behavioral advertising is a technique used by online publishers and advertisers to increase the effectiveness of their campaigns. Behavioral advertising uses information collected from an individual's web-browsing behavior, such as the pages they have visited or the searches they have made, to select which advertisements to display to that individual. This data can be valuable for online marketers looking to personalize advertising initiatives or to provide geo-tags through mobile devices. Many businesses adhere to industry self-governing principles, including an opt-out regime whereby information may be collected until an individual indicates that he or she no longer agrees to have this information collected. The FTC and EU member states are considering regulations in this area, which may include implementation of a more rigorous opt-in regime. An opt-in policy would prohibit businesses from collecting and using information from individuals who have not voluntarily consented. Among other things, the implementation of an opt-in regime could require substantial technical support and negatively impact the market for our mobile advertising products and services. A few states have also introduced bills in recent years that would restrict behavioral advertising within the state. These bills would likely have the practical effect of regulating behavioral advertising nationwide because of the difficulties behind implementing state-specific policies or identifying the location of a particular consumer. There have also been a large number of class action suits filed against companies engaged in behavioral advertising.

• *Behavioral Advertising-Privacy Regulation.* Our business is affected by U.S. federal and state, as well as EU member state and foreign country, laws and regulations governing the collection, use, retention, sharing and security of data that we receive from and about our users. In recent years, regulation has focused on the collection, use, disclosure and security of information that may be used to identify or that actually identifies an individual, such as an Internet Protocol address or a name. Although the mobile and Internet advertising privacy practices are currently largely self-regulated in the U.S., the FTC has conducted numerous discussions on this subject and suggested that more rigorous privacy regulation is appropriate, including regulation of non-personally identifiable information which could, with other information, be used to identify an individual. Within the EU, member state data protection authorities typically regard IP addresses as personal information, and legislation adopted recently in the EU requires consent for the placement of a cookie on a user device. In addition, EU data protection authorities are following with interest the FTC's discussions regarding behavioral advertising and may follow suit by imposing additional privacy requirements for mobile advertising practices.

• *Marketing-Privacy Regulation.* In addition, there are U.S. federal and state laws and EU member state and other country laws that govern SMS/MMS and telecommunications-based marketing, generally requiring senders to transmit messages (including those sent to mobile devices) only to recipients who have specifically consented to receiving such messages. U.S. federal, EU member state and other country laws also govern e-mail marketing, generally imposing an opt-out requirement for emails sent within an existing business relationship.

• *SMS/MMS and Location-Based Marketing Best Practices and Guidelines.* We voluntarily comply with the guidelines of the Mobile Marketing Association, or MMA, a global association of 700 agencies, advertisers, mobile device manufacturers, wireless operators and service providers and others interested in the potential of marketing via the mobile channel. The MMA has published a code of conduct and best practices guidelines for use by those involved in mobile messaging activities. The guidelines were developed by a collaboration of the major carriers and they require adherence to them as a condition of service. We voluntarily comply with the MMA code of conduct, which generally require notice and user consent for delivery of location-based services. In addition, the Cellular Telephone Industry Association, or CTIA, has developed Best Practices and Guidelines to promote and protect user privacy regarding location-based services.

· *TCPA.* The United States Telephone Consumer Protection Act, or TCPA, prohibits unsolicited voice and text calls to cell phones through the use of an automatic telephone-dialing system (ATDS) unless the recipient has given prior consent. The statute also prohibits companies from initiating telephone solicitations to individuals on the national Do-Not-Call list, and restricts the hours when such messages may be sent. Violations of the TCPA can result in statutory damages of $500 per violation (i.e., for each individual text message). U.S. state laws impose additional regulations on voice and text calls. We believe that our platform does not employ an ATDS within the meaning of the TCPA based on case law construing that term.

· *CAN-SPAM.* The U.S. Controlling the Assault of Non-Solicited Pornography and Marketing Act, or CAN SPAM Act, prohibits all commercial e-mail messages, as defined in the law, to mobile phones unless the device owner has given "express prior authorization." Recipients of such messages must also be allowed to opt-out of receiving future messages the same way they opted-in. Senders have ten business days to honor opt-out requests. The FCC has compiled a list of domain names used by wireless service providers to which marketers may not send commercial e-mail messages. Senders have 30 days from the date the domain name is posted on the FCC site to stop sending unauthorized commercial e-mail to addresses containing the domain name. Violators are subject to fines of up to $6.0 million and up to one year in jail for some spamming activities. Carriers, the FTC, the FCC, and State Attorneys General may bring lawsuits to enforce alleged violations of the Act.

· *Communications Privacy Acts.* Foreign and U.S. federal and state laws impose liability for intercepting communications while in transit or accessing the contents of communications while in storage. EU member state laws also require consent for our receiving this information, and if our carrier customers fail to obtain such consent we could be subjected to civil or even criminal penalties.

· *Security Breach Notification Requirements.* EU member state laws require notice to the member state data protection authority of a data security breach involving personal data if the breach poses a risk to individuals. In addition, Germany enacted a broad requirement to notify individuals in the event of a data security breach that is likely to be followed by notification requirements to data subjects in other EU member states. In the U.S., various states have enacted data breach notification laws, which require notification of individuals and sometimes state regulatory bodies in the event of breaches involving certain defined categories of personal information. Japan and Uruguay have also enacted security breach notice requirements. This new trend suggests that breach notice statutes may be enacted in other jurisdictions, including by the U.S. at the federal level, as well.

· *Children.* The Children's Online Privacy Protection Act prohibit the knowing collection of personal information from children under the age of 13 without verifiable parental consent, and strictly regulate the transmission of requests for personal information to such children. Other countries do not recognize the ability of children to consent to the collection of personal information. In addition, it is likely that behavioral advertising regulations will impose special restrictions on use of information collected from minors for this purpose.

Employees

As of April 10, 2019, we had 58 employees, consisting of 37 full-time and two part-time in research and development, 13 full-time in sales and marketing, and seven full-time in general and administrative.

Item 1A. Risk Factors.

Risks Relating to Our Business

We may need additional financing to execute our business plan and fund operations, which additional financing may not be available on reasonable terms or at all. As of December 31, 2018, we had a working capital deficit of $(3,580,179). While we believe that our working capital on hand, along with our expected cash flow from operations, will be sufficient to fund our 12-month plan of operations, there can be no assurance that we will not require significant additional capital within 12 months. Also, we expect that we may require additional capital beyond the next 12 months unless we are able to achieve and maintain a profitable operation. In the event we require additional capital we will endeavor to raise additional funds through various financing sources, including the sale of our equity and debt securities and the procurement of commercial debt financing. However, there can be no guarantees that such funds will be available on commercially reasonable terms, if at all. If such financing is not available on satisfactory terms, we may be unable to expand or continue our business as desired and operating results may be adversely affected. Any debt financing will increase expenses and must be repaid regardless of operating results and may involve restrictions limiting our operating flexibility. If we issue equity securities to raise additional funds, the percentage ownership of our existing stockholders will be reduced, and our stockholders may experience additional dilution in net book value per share.

Our ability to obtain needed financing may be impaired by such factors as the capital markets, both generally and specifically in our industry, and the fact that we are not yet profitable, 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, we may be required to reduce or even cease operations.

Our sales efforts to large enterprises require significant time and effort and could hinder our ability to expand our customer base and increase revenue. Attracting new customers to our large enterprise division requires substantial time and expense, especially in an industry that is so heavily dependent on personal relationships with executives. We cannot assure that we will be successful in establishing new relationships or maintaining or advancing our current relationships. For example, it may be difficult to identify, engage and market to customers who do not currently perform mobile marketing or advertising or are unfamiliar with our current services or platform. Further, many of our customers typically require input from one or more internal levels of approval. As a result, during our sales effort, we must identify multiple people involved in the purchasing decision and devote a sufficient amount of time to presenting our products and services to those individuals. The complexity of our services often requires us to spend substantial time and effort assisting potential customers in evaluating our products and services including providing demonstrations and benchmarking against other available technologies. We expect that our sales process will become less burdensome as our products and services become more widely known and used. However, if this change does not occur, we will not be able to expand our sales effort as quickly as anticipated and our sales will be adversely affected.

We may not be able to enhance our platform to keep pace with technological and market developments, or to remain competitive against potential new entrants in our markets. The market for mobile marketing and advertising services is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. Our current platform and services may not in the future be acceptable to marketers and advertisers. To keep pace with technological developments, satisfy increasing customer requirements and achieve acceptance of our marketing and advertising campaigns, we will need to enhance our current mobile marketing solutions and continue to develop and introduce on a timely basis new, innovative mobile marketing services offering compatibility, enhanced features and functionality on a timely basis at competitive prices. Our inability, for technological or other reasons, to enhance, develop, introduce and deliver compelling mobile marketing services in a timely manner, or at all, in response to changing market conditions, technologies or customer expectations could have a material adverse effect on our operating results or could result in our mobile marketing services platform becoming obsolete. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our mobile marketing services platform with evolving industry standards and protocols. In addition, as we believe the mobile marketing market is likely to grow substantially, other companies which are larger and have significantly more capital to invest than us may emerge as competitors. For example, in May 2010, Google, Inc. acquired Admob, Inc. Similarly, in January 2010, Apple, Inc. acquired Quattro Wireless, Inc. New entrants could seek to gain market share by introducing new technology or reducing pricing. This may make it more difficult for us to sell our products and services, and could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

Our services are provided on mobile communications networks that are owned and operated by third parties who we do not control and the failure of any of these networks would adversely affect our ability to deliver our services to our customers. Our mobile marketing and advertising platform is dependent on the reliability of mobile operators who maintain sophisticated and complex mobile networks. Such mobile networks have historically, and particularly in recent years, been subject to both rapid growth and technological change. If the network of a mobile operator with which we are integrated should fail, including because of new technology incompatibility, the degradation of network performance under the strain of too many mobile consumers using it, or a general failure from natural disaster or political or regulatory shut-down, we will not be able provide our services to our customers through such mobile network. This in turn, would impair our reputation and business, potentially resulting in a material, adverse effect on our financial results.

If our platform does not scale as anticipated, our business will be harmed. We must be able to continue to scale to support potential ongoing substantial increases in the number of users in our actual commercial environment and maintain a stable service infrastructure and reliable service delivery for our mobile marketing and advertising campaigns. In addition, we must continue to expand our service infrastructure to handle growth in customers and usage. If our mobile marketing services platform does not efficiently and effectively scale to support and manage a substantial increase in the number of users while maintaining a high level of performance, the quality of our services could decline and our business will be seriously harmed. In addition, if we are unable to secure data center space with appropriate power, cooling and bandwidth capacity, we may not be able to efficiently and effectively scale our business to manage the addition of new customers and overall mobile marketing campaigns.

The success of our business depends, in part, on wireless carriers continuing to accept our customers' messages for delivery to their subscriber base. We depend on wireless carriers to deliver our customers' messages to their subscriber base. Wireless carriers often impose standards of conduct or practice that significantly exceed current legal requirements and potentially classify our messages as "spam," even where we do not agree with that conclusion. In addition, the wireless carriers use technical and other measures to attempt to block non-compliant senders from transmitting messages to their customers; for example, wireless carriers block short codes or Internet Protocol addresses associated with those senders. There can be no guarantee that we, or short codes registered to us, will not be blocked or blacklisted or that we will be able to successfully remove ourselves from those lists. Although our services typically require customers to opt-in to a campaign, minimizing the risk that our customers' messages will be characterized as spam, blocking of this type could interfere with our ability to market products and services of our customers and communicate with end users and could undermine the effectiveness of our customers' marketing campaigns. To date we have not experienced any material blocking of our messages by wireless carriers, but any such blocking could have an adverse effect on our business and results of operations.

We depend on third party providers for a reliable Internet infrastructure and the failure of these third parties, or the Internet in general, for any reason would significantly impair our ability to conduct our business. We outsource all of our data center facility management to third parties who host the actual servers and provide power and security in multiple data centers in each geographic location. These third-party facilities require uninterrupted access to the Internet. If the operation of our servers is interrupted for any reason, including natural disaster, financial insolvency of a third-party provider, or malicious electronic intrusion into the data center, our business would be significantly damaged. As has occurred with many Internet-based businesses, on occasion in the past, we have been subject to "denial-of-service" attacks in which unknown individuals bombarded our computer servers with requests for data, thereby degrading the servers' performance. While we have historically been successful in relatively quickly identifying and neutralizing these attacks, we cannot be certain that we will be able to do so in the future. If either a third-party facility failed, or our ability to access the Internet was interfered with because of the failure of Internet equipment in general or we become subject to malicious attacks of computer intruders, our business and operating results will be materially adversely affected.

Failure to adequately manage our growth may seriously harm our business. We operate in an emerging technology market and have experienced, and may continue to experience, significant growth in our business. If we do not effectively manage our growth, the quality of our products and services may suffer, which could negatively affect our brand and operating results. Our growth has placed, and is expected to continue to place, a significant strain on our managerial, administrative, operational and financial resources and our infrastructure. Our future success will depend, in part, upon the ability of our senior management to manage growth effectively. This will require us to, among other things:

· implement additional management information systems;

· develop additional levels of management within our company;

· locate additional office space in various countries; and

· maintain close coordination among our engineering, operations, legal, finance, sales and marketing and customer service and support organizations.

Moreover, as our sales increase, we may be required to concurrently deploy our services infrastructure at multiple additional locations or provide increased levels of customization. As a result, we may lack the resources to deploy our mobile marketing services on a timely and cost-effective basis. Failure to accomplish any of these requirements would seriously harm our ability to deliver our mobile marketing services platform in a timely fashion, fulfill existing customer commitments or attract and retain new customers.

The gathering, transmission, storage and sharing or use of personal information could give rise to liabilities or additional costs of operation as a result of governmental regulation, legal requirements, civil actions or differing views of personal privacy rights. We transmit and store a large volume of personal information in the course of providing our services. Federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from our customers and their users. Any failure, or perceived failure, by us to comply with U.S. federal, state, or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business, operating results and financial condition. Additionally, we may also be contractually liable to indemnify and hold harmless our customers from the costs or consequences of inadvertent or unauthorized disclosure of their customers' personal data which we store or handle as part of providing our services.

The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally, particularly with regard to location-based services, use of customer data to target advertisements and communication with consumers via mobile devices. Such laws may be interpreted and applied inconsistently from country to country and inconsistently with our current data protection policies and practices. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business, operating results or financial condition.

As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of personal information. These and other privacy concerns, including security breaches, could adversely impact our business, operating results and financial condition.

In the U.S., we have voluntarily agreed to comply with wireless carrier technological and other requirements for access to their customers' mobile devices, and also trade association guidelines and codes of conduct addressing the provision of location-based services, delivery of promotional content to mobile devices and tracking of users or devices for the purpose of delivering targeted advertising. We could be adversely affected by changes to these requirements, guidelines and codes, including in ways that are inconsistent with our practices or in conflict with the rules or guidelines in other jurisdictions.

We currently rely on a small concentration of customers to use our products to generate our revenues, and the loss or change in any of these significant relationships could materially reduce our revenues. Although we believe we have a good relationship with these customers, our contracts with these customers are short-term in nature. Should these customers choose to terminate their contracts with us or if material events occur that are detrimental to these customers or their operations, it could have a significant negative impact on our financial performance.

Risks Related to our Common Stock

There has been a limited trading market for our common stock. There has been a limited trading market for our common stock on the Over-the-Counter Bulletin Board. The lack of an active market may impair the ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using common stock as consideration.

The market price of our common stock may be, and is likely to continue to be, highly volatile and subject to wide fluctuations. The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including:

- dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we expect to make in connection with future acquisitions or capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;

- announcements of new acquisitions or other business initiatives by our competitors;

- our ability to take advantage of new acquisitions or other business initiatives;

- quarterly variations in our revenues and operating expenses;

- changes in the valuation of similarly situated companies, both in our industry and in other industries;

- changes in analysts' estimates affecting us, our competitors and/or our industry;

- changes in the accounting methods used in or otherwise affecting our industry;

- additions and departures of key personnel;

- announcements by relevant governments pertaining to additional quota restrictions; and

- fluctuations in interest rates and the availability of capital in the capital markets.

Some of these factors are beyond our control, and the impact of these risks, singly or in the aggregate, may result in material adverse changes to the market price of our common stock and/or our results of operations and financial condition.

We do not expect to pay dividends in the foreseeable future. We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms or at all. Investors cannot be assured of a positive return on investment or that they will not lose the entire amount of their investment in the common stock.

Our common stock may be considered to be a "penny stock" and, as such, any the market for our common stock may be further limited by certain SEC rules applicable to penny stocks. To the extent the price of our common stock remains below $5.00 per share or we have net tangible assets of $2,000,000 or less, our common shares will be subject to certain "penny stock" rules promulgated by the SEC. Those rules impose certain sales practice requirements on brokers who sell penny stock to persons other than established customers and accredited investors (generally institutions with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000). For transactions covered by the penny stock rules, the broker must make a special suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to the sale. Furthermore, the penny stock rules generally require, among other things, that brokers engaged in secondary trading of penny stocks provide customers with written disclosure documents, monthly statements of the market value of penny stocks, disclosure of the bid and asked prices and disclosure of the compensation to the brokerage firm and disclosure of the sales person working for the brokerage firm. These rules and regulations adversely affect the ability of brokers to sell our common shares and limit the liquidity of our securities.

We are a "smaller reporting company" and, as such are allowed to provide less disclosure than larger public companies. We are currently a "smaller reporting company," meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have a public float of less than $75 million and annual revenues of less than $50 million during the most recently completed fiscal year. As a "smaller reporting company", we are able to provide simplified executive compensation disclosures in our SEC filings, are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting, and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports. Decreased disclosures in our SEC filings due to our status as a "smaller reporting company" may make it harder for investors to analyze our results of operations and financial prospects.

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Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We have a lease through December 2020 for 10,395 square feet of office space located at 55 N. Arizona Ave., Suite 310, Chandler, Arizona. Monthly rental payments, excluding common area maintenance charges, are $20,416.

We have a lease through April 2022 for 3,248 square feet of office space located in Halifax, Nova Scotia, at a monthly rental expense of $3,458 per month, excluding common area maintenance charges.

Item 3. Legal Proceedings.

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

In February 2019, a complaint was filed against us and five of our employees in the U.S. Federal District Court for the Southern District of New Yotk by mGage, LLC (mGage, LLC v. Glenn Stansbury, et al., No. 19-cv-1165-CM (S.D.N.Y. Filed 2/7/19). In the complaint, the plaintiff alleged that we and five of our employees, who previously worked at mGage, misappropriated confidential information belonging to mGage in violation of the federal Defend Trade Secrets Act, that those same individuals violated non-compete agreements through their employment at Mobivity and that we tortiously interfered with mGage's business opportunities. On February 7, 2019 the court granted a preliminary injunction enjoining Mobivity and the individual employees from working together at Mobivity or using any of the alleged confidential information. The court also directed expedited discovery. The court has set a conference date in the case for June 21, 2019. We deny all liability on the part of Mobivity and we intend to vigorously defend against this lawsuit.

Item 4. Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matter and Issuer Purchases of Equity Securities

Our common stock is quoted on the OTC Bulletin Board under the stock symbol "MFON".

Our common stock trades only sporadically and has experienced in the past, and is expected to experience in the future, significant price and volume volatility.

The following table shows the reported high and low closing bid quotations per share for our common stock based on information provided by the OTC Bulletin Board for the periods indicated. Quotations reflect inter-dealer prices, without markup, markdown or commissions and may not represent actual transactions.

Year Ended December 31, 2018	High	Low
Fourth Quarter	$ 1.88	$ 1.16
Third Quarter	$ 1.60	$ 0.99
Second Quarter	$ 1.12	$ 0.80
First Quarter	$ 1.40	$ 0.95

Year Ended December 31, 2018	High	Low
Fourth Quarter	$ 1.25	$ 1.00
Third Quarter	$ 1.18	$ 0.70
Second Quarter	$ 0.79	$ 0.60
First Quarter	$ 0.89	$ 0.70

Holders of Record

As of March 26, 2019, there were 580 holders of record of our common stock, not including shares held in street name.

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Dividend Policy

We have not paid any cash dividends since our inception and do not contemplate paying dividends in the foreseeable future. It is anticipated that earnings, if any, will be retained for the operation of our business.

Stock Repurchases

We did not repurchase any of our common stock in 2018 or 2017.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth additional information as of December 31, 2018 with respect to the shares of common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements in effect as of December 31, 2018. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and the number of shares remaining available for future grant, excluding the shares to be issued upon exercise of outstanding options.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities

				reflected in
				column (a)
	(a)			
Equity compensation plans not approved by security holders [1]	5,012,218	$	1.15	5,572,797
Equity compensation plans approved by security holders	-		-	-
Total	5,012,218	$	1.15	5,572,797

(1) Comprised of our 2010, 2013, and 2016 Incentive Stock Plans.

Item 6. Selected Financial Data

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the related notes and other information that are included elsewhere in this Form 10-K. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward looking statements as a result of a number of factors, including those set forth under the cautionary note regarding "Forward Looking Statements" contained in Item 1.A – "Risk Factors".

Overview

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 marketing campaigns. Our proprietary platforms, consisting of software available to phones, tablets, PCs, and POS systems, allow resellers, brands and enterprises to market their products and services to consumers through text messages sent directly to the consumers via mobile phones, mobile smartphone applications, and dynamically printed receipt content. 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. We help personal care, restaurant and retail brands realize their strategy of growing their business by increasing customer frequency, engagement and spend. Mobivity's analytics services and products provide solutions that allow brands to take validated marketing actions across all channels, based on real customer behavior to create personalized, relevant, localized and targeted campaigns. With national clients such as Subway, Sonic, Chick-fil-A, and Baskin-Robbins, Mobivity's goal is to unlock the power of internal and external customer data to create a system that provides data driven insight to continually adapt and enhance communications with customers.

According to the U.S. Census Bureau, only 7% of commerce in the US occurs online which means 93% is still happening in the physical world. We believe that brands, and in particular restaurant and retail brands, need a better way to tie marketing activities to customer purchases, and then use the information to build a more relevant, personal experience for each customer, at a local and national level. Mobivity is giving brands the ability to connect (and measure) marketing communications in the physical world by unlocking POS and mobile data and marrying it with other traditional tactics to create a closed loop: in some cases, increasing response rates from 0.05% to 5% (or greater); improving online advertising conversion by 10X; and increasing revenue per ad by more than 2.5X.

Mobivity's solution addresses the offline marketing problem and makes personalized marketing automation possible for offline commerce. Digital marketing is highly dynamic and personally targeted. According to studies published by McKinsey & Company, Point Drive, and the National Advertising Institute, targeted advertising generates conversion rates more than eleven times higher than non-targeted advertising, more than double the revenue per advertisement, and is 250% more efficient than non-targeted advertising. Combined with purchase data and analytics gathered by Mobivity's products and platforms, Mobivity customers are able to quickly transform traditionally low marketing campaign response rates to exponentially higher response rates.

Mobivity's Recurrency platform unlocks valuable POS and mobile data to help transform customer transactions into actionable and attributable marketing insights. Our technology provides transactional data, in real-time, that uncovers market-basket information and attributes both online and traditional promotions. Recurrency is comprised of Recapture, Recognition, Receipt, Reach, and Reup.

Recent Events

2018 Warrant Exercise

Between January 19, 2018 and March 31, 2018, we conducted an offer to the holders of our outstanding common stock purchase warrants pursuant to which our warrant holders will be permitted to exercise their warrants at a reduced exercise price for a period expiring on March 31, 2018. At the commencement of the warrant offer, there were warrants outstanding that entitled their holders to purchase 5,134,349 shares of our common stock at exercise prices of $1.00 and $1.20 per share. Pursuant to the offer, warrant holders exercised warrants to purchase 2,018,125 shares of our common stock, resulting in additional capital of $2,018,125. We undertook this limited-time warrant exercise price reduction in order to raise additional capital without incurring further potential dilution to our stockholders. In addition, through the warrant holders' acceptance of our offer, we could significantly reduce the number of outstanding warrants and thereby simplify our capital structure. The warrant offer was conducted by our management and there were no commissions paid by us in connection with the solicitation.

Unsecured Promissory Note Investments in 2018

During February 2018, we conducted a private placement of Unsecured Promissory Notes (individually, a "*Note*" and collectively, the "*Notes*") in the aggregate principal amount of $1,080,000 to certain investors, officers and directors of the Company. 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 December 1, 2018. We may prepay any of the Notes without notice, subject to a two percent (2%) pre-payment penalty. The Note offer was conducted by our management and there were no commissions paid by us in connection with the solicitation. As of December 31, 2018, we have repaid $1,000,000 and have $80,000 as a remaining balance of these notes.

2017 Customer Contract Renewal and Expansion

On June 30, 2017 we renewed and expanded our partnership with one of our largest customers to foster additional customer engagement and long-term growth through utilization of the Mobivity platform. With personalized customer communications via text/social messaging (Reach), and optimized business performance (Recognition), we have crafted a complete and self-optimizing solution for increasing customer acquisition, frequency and spend.

The renewed and expanded partnership utilizes the Mobivity platform for all of our customer's locations for a term of 5 years and includes a co-marketing commitment from both companies to ensure the continued growth in consumer subscribers to the program. The 5-year term includes a six figure monthly minimum commitment that is prepaid to Mobivity on an annual basis.

November 2018 Acquisition of Certain Belly, Inc Assets

On November 14, 2018, we entered into an Asset Purchase Agreement with Belly, Inc., a Delaware corporation, pursuant to which we purchased from Belly, certain operating assets relating to Belly's proprietary digital customer loyalty platform, including client contracts, accounts receivable and intellectual property, in exchange for our payment of $3,000,000, subject to working capital adjustments. Belly was founded in 2001 and was originally funded by Andreessen Horowitz, Lightbank, NEA, DAG Ventures, Cisco and 7-Ventures, LLC (a subsidiary of 7-Eleven, Inc). Belly is a platform-first technology company enabling businesses of all sizes to create digital connections that result in personal relationships with their customers. Belly's platform has been deployed to more than

5,000 merchant locations and 7 million consumers. Our acquisition of the Belly assets is expected to be accretive to our top and bottom line revenue figures. The Asset Purchase Agreement contains customary representations, warranties and indemnities on the part of Belly. The closing of the acquisition took place on November 14, 2018, subject to usual and customary closing conditions. We financed the acquisition through our cash on hand.

In connection with our acquisition of the Belly assets, on November 14, 2018, we entered into a Loan and Security Agreement with Wintrust Bank. The Loan and Security Agreement provides for a single-term loan to us in the original principal amount of $1,000,000. Interest accrues on the unpaid principal amount at the rate of prime plus 1.5%. The loan is a three-year loan and is interest-only payable for the first six months of the loan. Commencing on May 1, 2019, we will commence monthly payments of principal in the amount of $33,333.33 in addition to the monthly payment of accrued interest. The loan is secured by all of our assets other than our intellectual property. We used the proceeds of the loan to re-finance a loan in the principal amount of $1,000,000 we assumed as part of the acquisition of the Belly assets.

Results of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

Revenues consist primarily of a suite of products under the re•currency platform (formerly “SmartSuite”). The re•currency platform is comprised of re•capture, re•cognition (formerly “SmartAnalytics”), re•ceipt (formerly “SmartReceipt”), re•ach (formerly “SmartMessenger”), re•up (formerly “SmartScore”), Belly Loyalty, advertising model revenues which are paid on a per coupon redemption basis, and other revenues.

Revenues for the twelve months ended December 31, 2018 were $11,556,536, an increase of $2,964,581, or 35%, compared to $8,591,955 for the twelve months ended December 31, 2017. This increase is primarily due to an increase in customer contracts and our adoption of ASC 606 as of January 1, 2018. The adoption of ASC 606 resulted in our realization of $2,692,692 of revenue for the twelve months ended December 31, 2018 that we would not have realized in period under the revenue recognition standards prior to the adoption of ASC 606.

The following table sets forth our unaudited quarterly consolidated revenue, adjustments under ASC 606, and revenue under the previous standard, for the year ended December 31, 2018.

	For the Quarters Ended 2018			
	December 31	**September 30**	**June 30**	**March 31**
Revenues, as reported	$1,935,601	$4,561,368	$1,366,239	$3,693,328
Adjustments under ASC 606	938,514	(2,188,590)	206,115	(1,648,731)
Revenues under previous standard	$2,874,115	$2,372,778	$1,572,354	$2,044,597

Cost of Revenues

Cost of revenues consist primarily of cloud-based software licensing fees, short code maintenance expenses, personnel related expenses, and other expenses.

Cost of revenues for the twelve months ended December 31, 2018 was $3,932,334, an increase of $1,139,596, or 41%, compared to $2,792,738 for the twelve months ended December 31, 2017. This increase is primarily due to higher SMS/MMS messages sent during the period and higher application costs associated with messaging fees and surcharges charged by text messaging carriers.

General and Administrative

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

General and administrative expenses for the twelve months ended December 31, 2018 were $4,197,539, an increase of $840,373, or 25%, compared to $3,357,166 for the twelve months ended December 31, 2017. The increase in general and administrative expense was primarily due to an increase in overall operating costs and the recognition of $148,287 in expenses related to the adoption of ASC 606.

Sales and Marketing Expense

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

Sales and marketing expenses for the twelve months ended December 31, 2018 were $3,931,469, an increase of $299,742, or 8%, compared to $3,631,727 for the twelve months ended December 31, 2017. This increase was primarily attributable to the increase in commissioned sales during the period.

Engineering, Research, and Development Expense

Engineering, research, and development expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses.

Engineering, research, and development expenses for the twelve months ended December 31, 2018 were $3,713,787, a decrease of $487,860, or 12%, compared to $4,201,647 for the twelve months ended December 31, 2017. The decrease in engineering, research, and development expense was primarily due to a decrease in overall operating costs offset by the recognition of $1,334,582 in expenses related to the adoption of ASC 606.

Goodwill Impairment

During 2018 and 2017, we recorded goodwill impairment charges of $2,288,057 and $0, respectively. The impairment charges were based on our valuation of these assets at December 31, 2018 and 2017. In the fourth quarter of 2018, through our annual testing of goodwill, we determined that this one-time, non-cash impairment was required. This non-cash impairment charge does not impact our ability to generate cash flow in the future and it is not tax deductible.

Depreciation and Amortization Expense

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

Depreciation and amortization expenses for the twelve months ended December 31, 2018 were $486,255, an increase of $99,951, or 26%, compared to $386,304 for the twelve months ended December 31, 2017. This increase is primarily attributable to the increased amortization of our developed and acquired technologies.

Interest Expense

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

Interest expense for the twelve months ended December 31, 2018 were $210,422, an increase of $41,378, or 24%, compared to $169,044 for the twelve months ended December 31, 2017. The increase is primarily attributable to the interest on short and long term borrowings during the year.

Foreign Currency

The Company's financial results are impacted by volatility in the Canadian/U.S. Dollar exchange rate. The average U.S. Dollar exchange rate for the year ended December 31, 2018 and 2017 was $1 Canadian equals $0.77 U.S. Dollars. The Company's functional or measurement currency is the U.S. Dollar. Based on a U.S. Dollar functional currency, the following are the key areas impacted by foreign currency volatility:

- The Company sells products primarily in U.S. Dollars; therefore, reported revenues are not highly impacted by foreign currency volatility.

- A portion of the Company's expenses are incurred in Canadian Dollars and therefore fluctuate in U.S. Dollars as the U.S. Dollar varies. A weaker U.S. Dollar results in an increase in translated expenses, and a stronger U.S. Dollar results in a decrease.

- Changes in foreign currency rates also impact the translated value of the Company's working capital that is held in Canadian Dollars. Foreign exchange rate fluctuations result in foreign exchange gains or losses based upon movement in the translated value of Canadian working capital into U.S. Dollars.

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The change in foreign currency was a loss of $7,745 and $3,978 for the years ended December 31, 2018 and 2017, respectively.

Liquidity and Capital Resources

As of December 31, 2018, we had current assets of $2,471,091, including $554,255 in cash, and current liabilities of $6,051,270, resulting in working capital deficit of $(3,580,179). Since December 31, 2018 and through the date of this report, we issued an unsecured note in the amount of $1,500,000, which is due February 2021. We believe that as of the date of this report, our working capital on hand plus our expected cash flow from operations will be adequate to support our working capital for at least the next 12 months. However, there can be no assurance that we will not require additional capital within the next 12 months. If we require additional capital, we will seek to obtain this through the sale of our securities and, if available, bank lines of credit. However, there can be no assurance we will be able to obtain access to capital as and when needed and, if so, the terms of any available financing may not be subject to commercially reasonable terms.

Cash Flows

	Years ended December 31,	
	2018	**2017**
Net cash provided by (used in):		
Operating activities	$ (4,548,912)	$ (2,370,324)
Investing activities	(3,525,151)	(424,817)
Financing activities	8,226,826	1,066,199
Effect of foreign currency translation on cash flow	70,523	516
Net change in cash	$ 94,196	$ (1,728,426)

Operating Activities

We used cash in operating activities totaling $4,548,912 in 2018 and $2,370,324 in 2017, respectively. The increase in cash used in operating activities in 2018 compared to 2017 was due primarily to a decrease in other current assets and the non-cash impact of ASC606.

Investing Activities

Investing activities during 2018 includes the acquisition of certain Belly assets of $3,000,000, $504,845 of capitalized software development costs, and $20,306 of equipment purchases. Investing activities during 2017 includes $390,517 of capitalized software development costs, $17,490 of additions to fixed assets and $16,810 in capitalized patent costs.

Financing Activities

Financing activities for 2018 include net proceeds from the sale of common stock units of $8,051,958, proceeds from notes payable of $3,095,000 offset by payments on notes payable of $3,049,222. Financing activities for 2017 include net proceeds from the sale of common stock units of $82,798, proceeds from notes payable of $107,679, and borrowings on the line of credit facility of $890,722 offset by deferred financing issuance costs of $15,000.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made, including those related to share-based compensation and valuation of the derivative liability. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

Income Taxes

We account for income taxes using the assets and liability method, which recognizes deferred tax assets and liabilities determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets

when, based on available objective evidence, it is more likely than not that the benefit of such assets will not be realized. We recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained.

Revenue Recognition and Concentrations

Our Receipt and Reach 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. Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. 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.

Accounting Standards Update (“ASU“) No. 2014-09, Revenue from Contracts with Customers (Accounting Standards Codification 606 (“ASC 606”), is a comprehensive revenue recognition standard that superseded nearly all existing revenue recognition guidance. The Company adopted this standard effective January 1, 2018, applying the modified retrospective method. Upon adoption, the Company discontinued revenue deferral under the sell-through model and commenced recording revenue upon delivery to distributors, net of estimated returns. Generally, the new standard results in earlier recognition of revenues.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

During the years ended December 31, 2018 and 2017, two customers accounted for 67% and 71% of our revenues, respectively.

Share-based compensation expense

Share-based compensation cost is measured at the date of grant, based on the calculated fair value of the stock-based award, and is recognized as expense over the employee's requisite service period (generally the vesting period of the award). We estimate the fair value of employee stock options granted using the Black-Scholes Option Pricing Model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the fair value of our common stock on the date of grant, the expected option term, the risk-free interest rate at the date of grant, the expected volatility and the expected annual dividend yield on our Company's common stock. We use comparable public company data among other information to estimate the expected price volatility and the expected forfeiture rate.

Derivative Financial Instruments

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

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

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

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 8. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Mobivity Holdings Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Mobivity Holdings Corp. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes and schedules (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ M&K CPAS, PLLC

We have served as the Company's auditor since 2012.

Houston, TX

April 15, 2019

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Mobivity Holdings Corp.

Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	$ 554,255	$ 460,059
Accounts receivable, net of allowance for doubtful accounts of $10,104 and $2,280, respectively	601,658	885,743
Contracts receivable, current	578,869	-
Other current assets	736,309	209,536
Total current assets	2,471,091	1,555,338
Goodwill	537,550	803,118
Intangible assets, net	1,781,448	676,436
Contracts receivable, long term	2,113,823	-
Other assets	527,146	88,916
TOTAL ASSETS	**$ 7,431,058**	**$ 3,123,808**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,731,628	$ 1,096,003
Accrued interest	9,167	1,168
Accrued and deferred personnel compensation	350,311	590,500
Deferred revenue and customer deposits	1,956,938	1,429,266
Notes payable, net - current maturities	1,279,590	2,236,224
Other current liabilities	723,636	226,355
Total current liabilities	6,051,270	5,579,516
Non-current liabilities		
Notes payable, net - long term	194,328	180,810
Other long term liabilities	860,500	-
Total non-current liabilities	1,054,828	180,810
Total liabilities	7,106,098	5,760,326
Commitments and Contingencies (See Note 9)		

Stockholders' equity		
Common stock, $0.001 par value; 100,000,000 shares authorized; 45,998,053 and 37,025,140, shares issued and outstanding	45,998	37,025
Equity payable	100,862	100,862
Additional paid-in capital	88,008,473	77,910,842
Accumulated other comprehensive loss	4,759	(65,764)
Accumulated deficit	(87,835,132)	(80,619,483)
Total stockholders' equity	324,960	(2,636,518)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 7,431,058**	**$ 3,123,808**

See accompanying notes to consolidated financial statements.

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Mobivity Holdings Corp.

Consolidated Statements of Operations

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Revenues		
Revenues	$ 11,556,536	$ 8,591,955
Cost of revenues	3,932,334	2,792,738
Gross profit	7,624,202	5,799,217
Operating expenses		
General and administrative	4,197,539	3,357,166
Sales and marketing	3,931,469	3,631,727
Engineering, research, and development	3,713,787	4,201,647
Goodwill impairment	2,288,057	-
Depreciation and amortization	486,255	386,304
Total operating expenses	14,617,107	11,576,844
Loss from operations	**(6,992,905)**	**(5,777,627)**
Other income/(expense)		
Interest income	4,145	4,637
Interest expense	(210,422)	(169,044)
Gain on sale of fixed assets	(8,722)	-
Foreign currency (loss) gain	(7,745)	(3,978)
Total other income/(expense)	**(222,744)**	**(168,385)**
Loss before income taxes	**(7,215,649)**	**(5,946,012)**
Income tax expense	-	-
Net loss	**(7,215,649)**	**(5,946,012)**
Other comprehensive loss, net of income tax		
Foreign currency translation adjustments	70,523	(32,765)
Comprehensive loss	**$ (7,145,126)**	**$ (5,978,777)**
Net loss per share:		
Basic and diluted	**$ (0.17)**	**$ (0.16)**
Weighted average number of shares:		
Basic and diluted	**42,133,368**	**36,575,762**

See accompanying notes to consolidated financial statements.

Mobivity Holdings Corp.

Consolidated Statement of Stockholders' Equity (Deficit)

	Common Stock		Equity	Additional	Accumulated Other	Accumulated	Total Stockholders'
	Shares	Dollars	Payable	Paid-in Capital	Comprehensive Loss	Deficit	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	5,775,000	5,775	-	5,769,225	-	-	5,775,000
Issuance of common stock for warrant conversion	2,102,804	2,103	-	2,253,359	-	-	2,255,462
Issuance of common stock for debt conversion	1,047,583	1,047	-	1,088,439	-	-	1,089,486
Issuance of common stock	10,234	10	-	(10)	-	-	-

for cashless warrant conversion							
Issuance of common stock for options exercised	37,292	37	-	21,458	-	-	21,495
Stock based compensation	-	-	-	965,161	-	-	965,161
Foreign currency translation adjustment	-	-	-	-	70,523	-	70,523
Net loss	-	-	-	-	-	(7,215,649)	(7,215,649)
Balance, December 31, 2018	**45,998,053**	**$ 45,998**	**$ 100,862**	**$ 88,008,473**	**$ 4,759**	**$ (87,835,132)**	**$ 324,960**

See accompanying notes to consolidated financial statements.

Mobivity Holdings Corp.

Consolidated Statements of Cash Flows

	For the Year Ended December 31,	
	2018	**2017**
OPERATING ACTIVITIES		
Net loss	$ (7,215,649)	$ (5,946,012)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	33,477	(6,857)
Loss on conversion of debt	41,903	-
Amortization of deferred financing costs	-	28,249
Stock-based compensation	965,161	1,130,297
Loss on disposal of fixed assets	8,722	-
Depreciation and amortization expense	425,247	386,304
Goodwill impairment	2,288,057	-
Adjustments due to ASC 606	(1,209,823)	-
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	249,479	365,716
Other current assets	(946,448)	(29,620)
Other assets	-	10,957
Accounts payable	582,700	394,006
Accrued interest	120,304	(852)
Accrued and deferred personnel compensation	(244,874)	(82,056)
Other liabilities - non-current	(157,630)	-
Other liabilities - current	(17,550)	111,033
Deferred revenue and customer deposits	528,012	1,268,511
Net cash used in operating activities	**(4,548,912)**	**(2,370,324)**
INVESTING ACTIVITIES		
Purchases of equipment	(20,306)	(17,490)
Acquisition of Belly assets	(3,000,000)	-
Cash paid for patent	-	(16,810)
Capitalized software development costs	(504,845)	(390,517)
Net cash used in investing activities	**(3,525,151)**	**(424,817)**

FINANCING ACTIVITIES				
Payments on notes payable		(3,049,222)		-
Deferred financing costs		-		(15,000)
Net borrowings under line of credit agreement		-		890,722
Proceeds from notes payable		3,095,000		107,679
Proceeds from issuance of common stock, net of issuance costs		8,051,958		82,798
Net cash provided by financing activities		**8,097,736**		**1,066,199**
Effect of foreign currency translation on cash flow		70,523		516
Net change in cash		**94,196**		**(1,728,426)**
Cash at beginning of period		**460,059**		**2,188,485**
Cash at end of period	**$**	**554,255**	**$**	**460,059**
Supplemental disclosures:				
Cash paid during period for:				
Interest	$	210,422	$	169,044
Non cash investing and financing activities:				
Issuance of common stock for cashless exercise	$	10	$	-
Issuance of common stock for debt conversion	$	1,047,584	$	-
Issuance of common stock from restricted stock awards	$	-	$	484

See accompanying notes to consolidated financial statements.

Mobivity Holdings Corp.

Notes to Consolidated Financial Statements

1. The Company and Summary of Significant Accounting Policies

The Company

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 marketing campaigns. Our proprietary platforms, consisting of software available to phones, tablets, PCs, and POS systems, allow resellers, brands and enterprises to market their products and services to consumers through text messages sent directly to the consumers via mobile phones, mobile smartphone applications, and dynamically printed receipt content. 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. We help personal care, restaurant and retail brands realize their strategy of growing their business by increasing customer frequency, engagement and spend. Mobivity's analytics services and products provide solutions that allow brands to take validated marketing actions across all channels, based on real customer behavior to create personalized, relevant, localized and targeted campaigns. With national clients such as Subway, Sonic, Chick-fil-A, and Baskin-Robbins, Mobivity's goal is to unlock the power of internal and external customer data to create a system that provides data driven insight to continually adapt and enhance communications with customers.

According to the U.S. Census Bureau, only 7% of commerce in the US occurs online which means 93% is still happening in the physical world. We believe that brands, and in particular restaurant and retail brands, need a better way to tie marketing activities to customer purchases, and then use the information to build a more relevant, personal experience for each customer, at a local and national level. Mobivity is giving brands the ability to connect (and measure) marketing communications in the physical world by unlocking POS and mobile data and marrying it with other traditional tactics to create a closed loop: in some cases, increasing response rates from 0.05% to 5% (or greater); improving online advertising conversion by 10X; and increasing revenue per ad by more than 2.5X.

Mobivity's solution addresses the offline marketing problem and makes personalized marketing automation possible for offline commerce. Digital marketing is highly dynamic and personally targeted. According to studies published by McKinsey & Company, Point Drive, and the National Advertising Institute, targeted advertising generates conversion rates more than eleven times higher than non-targeted advertising, more than double the revenue per advertisement, and is 250% more efficient than non-targeted advertising. Combined with purchase data and analytics gathered by Mobivity's products and platforms, Mobivity customers are able to quickly transform traditionally low marketing campaign response rates to exponentially higher response rates.

Mobivity's Recurrency platform (formerly “SmartSuite”) unlocks valuable POS and mobile data to help transform customer transactions into actionable and attributable marketing insights. Our technology provides transactional data, in real-time, that uncovers market-basket information and attributes both online and traditional promotions. Recurrency is comprised of Recapture, Recognition (formerly “SmartAnalytics”), Receipt (formerly “SmartReceipt”), Reach (formerly “SmartMessenger”), Reupbell.

We generate revenue by charging the resellers, brands and enterprises a per-message transactional fee, or through fixed or variable software licensing fees.

Liquidity

We have $554,255 of cash as of December 31, 2018. We had a net loss of $7.2 million for the year then ended, and we used $4.6 million of cash in our operating activities during 2018. Since December 31, 2018 and through the date of this report, we issued an unsecured note in the amount of $1,500,000, which is due February 2021. This unsecured note alleviated the doubt of a going concern for the Company. Based on our projected 2018 results and, if necessary, our ability to reduce certain variable operating expenses, we believe that our existing capital, and operations, will be sufficient to finance our operations through the first quarter of 2019.

If our cash reserves prove insufficient to sustain operations, we plan to raise additional capital by selling shares of capital stock or other equity or debt securities. However, there are no commitments or arrangements for future financings in place at this time, and we can give no assurance that such capital will be available on favorable terms or at all. We may need additional financing thereafter until we can achieve profitability. If we cannot, we will be forced to curtail our operations or possibly be forced to evaluate a sale or liquidation of our assets. Any future financing may involve substantial dilution to existing investors.

Although we are actively pursuing financing opportunities, we may not be able to raise cash on terms acceptable to us or at all. There can be no assurance that we will be successful in obtaining additional funding. Financings, if available, may be on terms that are dilutive to our shareholders, and the prices at which new investors would be willing to purchase our securities may be lower than the current price of our ordinary shares. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our ordinary shares. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations in the short term.

Principles of Consolidation and Basis of Presentation

The accompanying financial statements are consolidated and include the financial statements of Mobivity Holdings Corp. and our wholly-owned subsidiary. Intercompany transactions are eliminated.

Use of Estimates

Preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions we may undertake in the future. Significant estimates used are those related to: stock-based compensation; valuation of acquired assets, intangible assets and liabilities; useful lives for depreciation and amortization of long-lived assets; future cash flows associated with impairment testing for goodwill, indefinite-lived intangible assets and other long-lived assets; valuation of derivative liabilities; valuation allowance for deferred tax assets; and contingencies.

Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual year. However, in regard to ongoing impairment testing of goodwill and indefinite-lived intangible assets, significant deterioration in future cash flow projections or other assumptions used in estimating fair values versus those anticipated at the time of the initial valuations, could result in impairment charges that materially affect the consolidated financial statements in a given year.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year’s presentation. The reclassifications had no effect on previously reported net loss.

Acquisitions

We account for acquired businesses using the purchase method of accounting. Under the purchase method, our consolidated financial statements reflect the operations of an acquired business starting from the completion of the acquisition. In addition, the assets acquired and liabilities assumed are recorded at the date of acquisition at their respective estimated fair values, with any excess of the purchase price over the estimated fair values of the net assets acquired recorded as goodwill.

Cash and Cash Equivalents

We minimize our credit risk associated with cash by periodically evaluating the credit quality of our primary financial institution. Our balances at times may exceed federally insured limits. We have not experienced any losses on our cash accounts.

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 December 31, 2018, and 2017, we recorded an allowance for doubtful accounts of $10,104 and $2,280, respectively.

From time to time, we may have a limited number of customers with individually large amounts due. Any unanticipated change in one of the customer's credit worthiness could have a material effect on the results of operations in the period in which such changes or events occurred.

As of December 31, 2018, we had one customer whose balance represented 34% of total accounts receivable. As of December 31, 2017, we had one customer whose balance represented 51% of total accounts receivable.

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 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.

We conducted our annual impairment tests of goodwill as of December 31, 2018 and 2017. As a result of these tests, we recorded impairment charges to our goodwill of $2,288,057 and $0 for the years ended December 31, 2018 and 2017, respectively.

Intangible assets consist of patents and trademarks, purchased customer contracts, purchased customer and merchant relationships, purchased trade names, purchased technology, and non-compete agreements. 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. 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.

The Company’s evaluation of its long-lived assets completed during the years ended December 31, 2018 and 2017 resulted in impairment charges of $0 and $0, respectively.

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. 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 impairment 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. The Company's evaluation of its capitalized software development asset completed during the years ended December 31, 2018 and 2017 resulted in impairment charges of $0 and $0, respectively.

Derivative Financial Instruments

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

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

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

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

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Going Concern Assumption

These financial statements are prepared on a going concern basis. This requires management to evaluate whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions or events are identified, the standard requires management's mitigation plans to alleviate the doubt or a statement of the substantial doubt about the entity's ability to continue as a going concern to be disclosed in the financial statements. During management's evaluation, substantial doubt was raised about the entity's ability to continue as a going concern. As a result of this evaluation, the Company has undertaken financing efforts (as further described in Note 14) to provide continuing financial support so that the Company is able to pay its debts as and when they fall due. Management has concluded that the doubt raised has been alleviated by the additional financing.

Revenue Recognition and Concentrations

Our Receipt and Reach 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. Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. 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.

Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Accounting Standards Codification 606 ("ASC 606") is a comprehensive revenue recognition standard that superseded nearly all existing revenue recognition guidance. The Company adopted this standard effective January 1, 2018, applying the modified retrospective method. Upon adoption, the Company discontinued revenue deferral under the sell-through model and commenced recording revenue upon delivery to distributors, net of estimated returns. Generally, the new standard results in earlier recognition of revenues.

During the years ended December 31, 2018 and 2017, two customers accounted for 67% and 71% of our revenues, respectively.

Stock-based Compensation

We primarily issue stock-based awards to employees in the form of stock options. We determine compensation expense associated with stock options based on the estimated grant date fair value method using the Black-Scholes valuation model. We recognize compensation expense using a straight-line amortization method over the respective vesting period.

Research and Development Expenditures

Research and development expenditures are expensed as incurred, and consist primarily of compensation costs, outside services, and expensed materials.

Advertising Expense

Direct advertising costs are expensed as incurred and consist primarily of E-commerce advertisements and other direct costs. Advertising expense was $88,569 and $22,509 for years ended December 31, 2018 and 2017, respectively.

Income Taxes

We account for income taxes using the assets and liability method, which recognizes deferred tax assets and liabilities determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets when, based on available objective evidence, it is more likely than not that the benefit of such assets will not be realized. We recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained.

Computation of Net Loss per Common Share

Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all potential common stock equivalents (convertible notes payable, stock options, and warrants) are converted or exercised. The calculation of diluted net loss per share excludes potential common stock equivalents if the effect is anti-dilutive.

Our weighted average common shares outstanding for basic and diluted are the same because the effect of the potential common stock equivalents is anti-dilutive.

We had the following dilutive common stock equivalents as of December 31, 2018 and 2017 which were excluded from the calculation because their effect was anti-dilutive.

	December 31,	
	2018	**2017**
Outstanding employee options	5,012,218	5,757,880
Outstanding restricted stock units	662,800	994,417
Outstanding warrants	2,087,060	5,134,349
	7,762,078	11,886,646

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 May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Accounting Standards Codification 606 ("ASC 606")). ASU No. 2014-09 provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract and estimating the amount of variable consideration to include in the transaction price attributable to each separate performance obligation. Subsequent to the initial standards, the FASB has also issued several ASUs to clarify specific revenue recognition topics. This guidance will be effective for the Company for its fiscal year 2018.

The Company adopted the modified retrospective approach to initially apply the update and recognize the remaining contract value at the date of application. The Company does not expect the adoption of ASU 2014-09 to have any impact on its total cash flows from operating, investing or financing activities.

Revenue pursuant to ASU 2014-09

The Company is continuing to assess the impact of adopting ASU 2014-09 on its financial position, results of operations and related disclosures and believes that the impact will be material. The most significant impact relates to the timing of revenue recognition for our Receipt product licenses sold with post contract support ("PCS"). Under the new guidance Vendor Specific Objective Evidence ("VSOE") is eliminated and we will recognize revenue for the attributable contract license revenue upon the installation to the customer's point-of-sale system. This will result in accelerated revenue recognition for this product.

The Company believes that the new standard will impact the following policies and disclosures:

- removal of the current limitation on contingent revenue will result in revenue being recognized earlier for certain contracts;
- allocation of subscription and support revenue;
- estimation of variable consideration for arrangements with location and usage-based fees;
- required disclosures including disaggregation of revenues, information about the remaining transaction price and when the Company expects to recognize revenue; and
- required disclosures including disaggregation of revenues, information about the remaining transaction price and when the Company expects to recognize revenue; and

Capitalized costs to acquire a contract pursuant to ASU 2014-09

The accounting for capitalized costs to acquire a contract under the new standard is significantly different than the Company's current accounting for deferred commissions. The new guidance results in the capitalization of significantly more costs and longer amortization lives. Under the Company's current accounting, the Company expenses commissions as they are earned by way of payment from the customer. Currently, payments made to those employees not directly related to the sale of a new contract or those related to any renewals, including the associated fringe benefits and payroll taxes, and partner referral fees are not capitalized.

Under the new standard, the Company will capitalize incremental costs of acquiring a non-cancelable subscription and support revenue contract. The capitalized amounts will consist primarily of sales commissions paid to the Company's direct sales force. Capitalized amounts will also include (1) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired, and (2) commissions paid to employees upon renewals of subscription and support.

Capitalized costs related to new revenue contracts will be amortized on a straight-line basis over the term of the contract.

The Company believes it will be material to both its balance sheet and statement of operations due to the capitalization of additional costs and the longer period of amortization.

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 November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230)." ASU No. 2016-18 requires that restricted cash be included with cash and cash equivalents when reconciling the change in cash flow. This guidance is reflected in these financial statements.

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

In May 2017, the FASB issued ASU No. 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this update provide guidance about which changes to the terms or conditions of a share-based award require an entity to apply modification accounting in Topic 718. The guidance will be effective for the Company for its fiscal year 2018, with early adoption permitted. The Company does not expect this ASU to materially impact the Company's consolidated financial statements.

2. Acquisitions

We completed the following acquisition in furtherance of our strategy to acquire small, privately owned enterprises in the mobile marketing sector through asset purchase structures. We made the acquisitions to expand our market presence and product offerings.

The purchase consideration for each acquisition was allocated to the tangible assets and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated consideration recorded as goodwill. An independent valuation expert assisted us in determining these fair values.

We have included the financial results of these acquisitions in our consolidated financial statements from the date of acquisition.

***Acquisition* of Certain Belly, Inc. Assets**

On November 14, 2018, we entered into an Asset Purchase Agreement with Belly, Inc., a Delaware corporation, pursuant to which we have agreed to purchase from Belly, and Belly has agreed to sell to us, certain operating assets relating to Belly's proprietary digital customer loyalty platform, including client contracts, accounts receivable and intellectual property, in exchange for our payment of $3,000,000, subject to working capital adjustments. Belly was founded in 2001 and was originally funded by Andreessen Horowitz, Lightbank, NEA, DAG Ventures, Cisco and 7-Ventures, LLC (a subsidiary of 7-Eleven, Inc). Belly is a platform-first technology company enabling businesses of all sizes to create digital connections that result in personal relationships with their customers. Belly's platform has been deployed to more than 5,000 merchant locations and 7 million consumers. Our acquisition of the Belly assets is expected to be accretive to our top and bottom line revenue figures. The Asset Purchase Agreement contains customary representations, warranties and indemnities on the part of Belly. The closing of the acquisition is expected to take place on or about

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November 14, 2018, subject to usual and customary closing conditions. We intended to finance the acquisition through our cash on hand.

In connection with our acquisition of the Belly assets, on November 14, 2018, we entered into a Loan and Security Agreement with Wintrust Bank. The Loan and Security Agreement provides for a single-term loan to us in the original principal amount of $1,000,000. Interest accrues on the unpaid principal amount at the rate of prime plus 1.5%. The loan is a three-year loan and is interest-only payable for the first six months of the loan. Commencing on May 1, 2019, we will commence monthly payments of principal in the amount of $33,333.33 in addition to the monthly payment of accrued interest. The loan is secured by all of our assets other than our intellectual property.

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

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

Estimated Tangible and Intangible Net Assets	
Accounts receivable, net	$ 9,400
Property and equipment	21,522
Other current assets & Prepaid expenses	18,009
IP/Technology/Patents	991,300
Goodwill	2,022,489
Total identifiable assets acquired	3,062,720
Liabilities assumed	(62,720)
Net assets acquired	$ 3,000,000

The purchase price consisted of $3 million in cash on hand.

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The following information presents unaudited pro forma consolidated results of operations for the years ended December 31, 2017 and 2018, as if the Belly asset acquisition described above had occurred on January 1, 2017. The pro forma financial information is not necessarily indicative of the operating results that would have occurred if the acquisition been consummated as of the date indicated, nor are they necessarily indicative of future operating results.

Mobivity Holdings Corp.

Unaudited Pro Forma Condensed Consolidated Statement of Operations

For the year ended December 31, 2017

	Mobivity	Belly	Pro Forma Combined
Revenues			
Revenues	$ 8,591,955	$ 3,305,808	$ 11,897,763
Cost of revenues	2,792,738	1,505,690	4,298,428
Gross profit	5,799,217	1,800,118	7,599,335
Operating expenses			
General and administrative	3,357,166	1,961,830	5,318,996
Sales and marketing	3,631,727	302,231	3,933,958
Engineering, research, and development	4,201,647	70,028	4,271,675
Depreciation and amortization	386,304	43,230	429,534
Total operating expenses	11,576,844	2,377,319	13,954,163
Loss from operations	**(5,777,627)**	**(577,201)**	**(6,354,828)**
Other income/(expense)			
Interest income	4,637	-	4,637
Interest expense	(169,044)	-	(169,044)
Foreign currency (loss) gain	(3,978)	-	(3,978)
Total other income/(expense)	**(168,385)**	**-**	**(168,385)**
Loss before income taxes	**(5,946,012)**	**(577,201)**	**(6,523,213)**
Income tax expense	-	-	-
Net loss	**(5,946,012)**	**(577,201)**	**(6,523,213)**
Other comprehensive lossnet of income tax			

Foreign currency translation adjustments	(32,765)	-	(32,765)
Comprehensive loss	**$ (5,978,777)**	**$ (577,201)**	**$ (6,555,978)**
Net loss per share:			
Basic and diluted	**$ (0.16)**		**$ (0.18)**
Weighted average number of shares:			
Basic and diluted	**36,575,762**		**36,575,762**

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Mobivity Holdings Corp.

Unaudited Pro Forma Condensed Combined Statement of Operations

For the Year Ended December 31, 2018

	Mobivity	Belly	Pro Forma Combined
Revenues			
Revenues	$ 11,556,536	$ 2,374,846	$ 13,931,382
Cost of revenues	3,932,334	658,999	4,591,333
Gross profit	7,624,202	1,715,847	9,340,049
Operating expenses			
General and administrative	4,197,539	542,136	4,739,675
Sales and marketing	3,931,469	71,543	4,003,012
Engineering, research, and development	3,713,787	64,699	3,778,486
Goodwill impairment	2,288,057	-	2,288,057
Depreciation and amortization	486,255	18,926	505,181
Total operating expenses	14,617,107	697,304	15,314,411
Income (loss) from operations	**(6,992,905)**	**1,018,543**	**(5,974,362)**
Other income/(expense)			
Interest income	4,145	-	4,145
Interest expense	(210,422)	-	(210,422)
Gain on sale of fixed assets	(8,722)	-	(8,722)
Other income	-	20,678	20,678
Foreign currency (loss) gain	(7,745)	-	(7,745)
Total other income/(expense)	**(222,744)**	**20,678**	**(202,066)**
Income (loss) before income taxes	**(7,215,649)**	**1,039,221**	**(6,176,428)**
Income tax expense	-	-	-
Net Income (loss)	**(7,215,649)**	**1,039,221**	**(6,176,428)**
Other comprehensive income (loss), net of income tax			
Foreign currency translation adjustments	70,523	-	70,523
Comprehensive income (loss)	**$ (7,145,126)**	**$ 1,039,221**	**$ (6,105,905)**
Net loss per share:			

Basic and diluted	**$ (0.17)**	**$ (0.15)**
Weighted average number of shares:		
Basic and diluted	**42,133,368**	**42,133,368**

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 impact of the adoption of ASC 606 to the Company relates to the acceleration of revenue recognition for sale of custom products subject to 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**

The following tables reflect the impact of adoption of ASC 606 on our condensed consolidated statements of operations for the year ended December 31, 2018 and our condensed consolidated balance sheet as of December 31, 2018 and the amounts as if the Previous Standards were in effect (“Amounts Under Previous Standards”):