

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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

For the transition period from _____ to _____

Commission file number 000-53851

Mobivity Holdings Corp.

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or Other Jurisdiction of
Incorporation or Organization)

26-3439095

(I.R.S. Employer
Identification No.)

58 W. Buffalo St. #200

Chandler, AZ 85225

(Address of Principal Executive Offices & Zip Code)

(866) 622-4261

(Registrant's Telephone Number)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

As of July 31, 2013, the registrant had 96,618,482 shares of common stock issued and outstanding.

MOBIVITY HOLDINGS CORP.
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Part I - Financial Information

Item 1. Financial Statements

**Mobivity Holdings Corp.
Consolidated Balance Sheets**

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current assets		
Cash	\$ 4,998,148	\$ 363
Accounts receivable, net of allowance for doubtful accounts of \$34,930 and \$44,700, respectively	305,732	414,671
Other current assets	69,242	30,009
Total current assets	5,373,122	445,043
Equipment, net	13,120	14,111
Goodwill	4,213,699	2,259,624
Intangible assets, net	1,738,773	444,112
Other assets	33,800	187,117
TOTAL ASSETS	\$ 11,372,514	\$ 3,350,007
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	\$ 476,780	\$ 514,949
Accrued interest	110,714	321,368
Accrued and deferred personnel compensation	325,281	299,534
Deferred revenue - related party	-	35,262
Deferred revenue and customer deposits	300,324	181,731
Convertible notes payable, net of discount	-	2,857,669
Notes payable	20,000	171,984
Derivative liabilities	209,089	3,074,504
Other current liabilities	231,567	250,144
Earn-out payable	46,567	2,032,881
Total current liabilities	1,720,322	9,740,026
Non-current liabilities		
Earn-out payable	177,433	-
Total non-current liabilities	177,433	-
Total liabilities	1,897,755	9,740,026
Commitments and Contingencies (See Note 10)		
Stockholders' equity (deficit)		
Common stock, \$0.001 par value; 150,000,000 shares authorized; 96,079,318 and 23,218,117 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	96,080	23,218
Equity payable	349,694	-
Additional paid-in capital	53,153,190	25,412,932
Accumulated deficit	(44,124,205)	(31,826,169)
Total stockholders' equity (deficit)	9,474,759	(6,390,019)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 11,372,514	\$ 3,350,007

See accompanying notes to consolidated financial statements (unaudited).

Mobivity Holdings Corp.
Consolidated Statements of Operations
(Unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues				
Revenues	\$ 1,085,610	\$ 1,009,398	\$ 2,113,603	\$ 2,022,604
Cost of revenues	<u>311,390</u>	<u>332,458</u>	<u>596,012</u>	<u>700,228</u>
Gross margin	774,220	676,940	1,517,591	1,322,376
Operating expenses				
General and administrative	787,698	796,946	1,320,323	1,714,527
Sales and marketing	1,435,444	381,868	1,798,341	729,119
Engineering, research, and development	157,184	135,760	251,239	295,973
Depreciation and amortization	<u>58,315</u>	<u>146,766</u>	<u>92,129</u>	<u>301,383</u>
Total operating expenses	2,438,641	1,461,340	3,462,032	3,041,002
Loss from operations	(1,664,421)	(784,400)	(1,944,441)	(1,718,626)
Other income/(expense)				
Interest income	18	2,568	21	2,568
Interest expense	(4,899,193)	(880,321)	(6,346,553)	(1,238,499)
Change in fair value of derivative liabilities	(2,812,048)	654,477	(3,813,598)	193,990
Gain (loss) on adjustment in contingent consideration	(499,177)	16,131	(193,465)	76,782
Total other income/(expense)	(8,210,400)	(207,145)	(10,353,595)	(965,159)
Loss before income taxes	(9,874,821)	(991,545)	(12,298,036)	(2,683,785)
Income tax expense	-	-	-	-
Net loss	\$ (9,874,821)	\$ (991,545)	\$ (12,298,036)	\$ (2,683,785)
Net loss per share - basic and diluted	\$ (0.28)	\$ (0.04)	\$ (0.42)	\$ (0.12)
Weighted average number of shares				
during the period - basic and diluted	<u>35,099,827</u>	<u>22,797,641</u>	<u>29,224,981</u>	<u>22,797,641</u>

See accompanying notes to consolidated financial statements (unaudited).

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

	Six months ended June 30,	
	2013	2012
OPERATING ACTIVITIES		
Net loss	\$ (12,298,036)	\$ (2,683,785)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense	(10,778)	79,179
Common stock issued for services	18,375	270,000
Common stock issued for late payment	-	160,468
Stock-based compensation	1,277,794	210,429
Depreciation and amortization expense	92,129	301,382
(Gain) loss on adjustment in contingent consideration	193,465	(76,782)
Change in fair value of derivative liabilities	3,813,598	(193,990)
Amortization of deferred financing costs	-	100,857
Amortization of note discounts	6,134,367	1,020,749
Loss on sale of assets	-	164
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	147,184	(110,239)
Other current assets	(33,733)	(540,553)
Other assets	-	(2,060)
Accounts payable	(84,388)	(189,617)
Accrued interest	159,132	83,598
Accrued and deferred personnel compensation	25,747	(22,826)
Deferred revenue - related party	(35,262)	-
Deferred revenue and customer deposits	1,926	(86,611)
Other liabilities	119,061	454,123
Net cash used in operating activities	(479,419)	(1,225,514)
INVESTING ACTIVITIES		
Purchases of equipment	(2,799)	(9,732)
Acquisitions	(400,000)	-
Net cash used in investing activities	(402,799)	(9,732)
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable, net of finance offering costs	700,000	3,148,470
Payments on notes payable	(1,609,682)	(772,547)
Payments on cash payment obligation	-	(87,500)
Proceeds from issuance of common stock, net of issuance costs	6,789,685	-
Net cash provided by financing activities	5,880,003	2,288,423
Net change in cash	4,997,785	1,053,177
Cash at beginning of period	363	396
Cash at end of period	\$ 4,998,148	\$ 1,053,573
Supplemental disclosures:		
Cash paid during period for :		
Interest	\$ 51,569	\$ 33,108
Non-cash investing and financing activities:		
Debt discount from derivatives	\$ 4,614,714	\$ 2,733,412
Adjustment to derivative liability due to note repayment	\$ 40,511	\$ 181,646
Adjustment to derivative liability due to note conversion	\$ 10,726,967	\$ 1,020,859
Adjustment to derivative liability due to Allonge / ASID conversion	\$ 349,694	\$ -
Adjustment to derivative liability due to non-employee warrant conversion	\$ 176,555	\$ -
Issuance of common stock for Boomtext earn-out	\$ 2,210,667	\$ -
Issuance of common stock for acquisitions	\$ 1,218,060	\$ -
Issuance of note payable for acquisition	\$ 1,365,096	\$ -
Earn-out payable recorded for acquisition	\$ 224,000	\$ -
Conversion of accrued interest into notes payable	\$ -	\$ 137,649
Conversion of notes payable into common stock	\$ 4,984,720	\$ -
Conversion of accrued interest into common stock	\$ 369,786	\$ -
Settlement of working capital asset related to the Boomtext acquisition	\$ 153,317	\$ -

See accompanying notes to consolidated financial statements (unaudited).

Mobivity Holdings Corp.
Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited)

	Common Stock		Equity Payable	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Dollars				
Balance, December 31, 2012	23,218,117	\$ 23,218	\$ -	\$ 25,412,932	\$ (31,826,169)	\$ (6,390,019)
Shares issued for Boomtext earn-out payment	1,483,669	1,484	-	2,209,183	-	2,210,667
Issuance of common stock for acquisitions	7,750,000	7,750	-	1,210,310	-	1,218,060
Issuance of common stock for cash, net of transaction costs of \$486,720	36,780,000	36,780	-	6,752,905	-	6,789,685
Issuance of common stock for conversion of note principal and interest	26,772,532	26,773	-	5,327,733	-	5,354,506
Issuance of common stock for services	75,000	75	-	18,300	-	18,375
Common stock issuable for allonge	-	-	131,248	-	-	131,248
Adjustment of derivative liability for note conversion	-	-	218,446	10,726,967	-	10,945,413
Adjustment of derivative liability for note repayment	-	-	-	40,511	-	40,511
Adjustment of derivative liability for non-employee warrant conversion	-	-	-	176,555	-	176,555
Stock based compensation	-	-	-	1,277,794	-	1,277,794
Net loss	-	-	-	-	(12,298,036)	(12,298,036)
Balance, June 30, 2013	96,079,318	\$ 96,080	\$ 349,694	\$ 53,153,190	\$ (44,124,205)	\$ 9,474,759

See accompanying notes to consolidated financial statements (unaudited).

Mobivity Holdings Corp.
Notes to Consolidated Financial Statements
(Unaudited)

1. Reverse Merger Transaction and Accounting

Reverse Merger Transaction

Mobivity Holdings Corp. (the “Company”) was incorporated as Ares Ventures Corporation in Nevada in 2008. In November 2010, the Company acquired CommerceTel, Inc., which was wholly-owned by CommerceTel Canada Corporation, in a reverse merger, or the “Merger”. Pursuant to the Merger, all of the issued and outstanding shares of CommerceTel, Inc. common stock were converted, at an exchange ratio of 0.7268-for-1, into an aggregate of 10,000,000 shares of the Company’s common stock, and CommerceTel, Inc. became a wholly owned subsidiary of the Company. In connection with the Merger, the Company changed its corporate name to CommerceTel Corporation in October 2010. The accompanying condensed consolidated financial statements, common share and weighted average common share basic and diluted information have been retroactively adjusted to reflect the exchange ratio in the Merger.

In connection with the Company’s acquisition of assets from Mobivity, LLC, the Company changed its corporate name to Mobivity Holdings Corp. and its operating company name from CommerceTel, Inc. to Mobivity, Inc., in August 2012.

Reverse Merger Accounting

Immediately following the consummation of the Merger: (i) the former security holders of Mobivity, Inc. common stock had an approximate 56% voting interest in the Company and the Company stockholders retained an approximate 44% voting interest; (ii) the former executive management team of Mobivity, Inc. remained as the only continuing executive management team for the Company; and (iii) the Company’s ongoing operations consist solely of the ongoing operations of Mobivity, Inc.

Based primarily on these factors, the Merger was accounted for as a reverse merger and a recapitalization in accordance with generally accepted accounting principles in the United States of America, or “GAAP”. As a result, these condensed financial statements reflect: (i) the historical results of Mobivity, Inc. prior to the Merger; (ii) the combined results of the Company following the Merger; and (iii) the acquired assets and liabilities at their historical cost.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

The Company is a provider of mobile marketing technology that enables major brands and enterprises to engage consumers via their mobile phones and other smart devices. Interactive electronic communications with consumers is a complex process involving communication networks and software. The Company removes this complexity through its suite of services and technologies thereby enabling brands, marketers, and content owners to communicate with their customers and consumers in general.

Principles of Accounting and Consolidation

These consolidated financial statements have been prepared in accordance with GAAP. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

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

Purchase Accounting

The Company accounts for acquisitions pursuant to Accounting Standards Codification (“ASC”) No. 805 “Business Combinations”. The Company records all acquired tangible and intangible assets and all assumed liabilities based upon their estimated fair values.

Cash

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Company has not experienced any losses on such accounts. The Company’s cash balances at June 30, 2013 and December 31, 2012 were \$4,998,148 and \$363, respectively.

Fair Value of Financial Instruments

On January 1, 2011, the Company adopted guidance which defines fair value, establishes a framework for using fair value to measure financial assets and liabilities on a recurring basis, and expands disclosures about fair value measurements. Beginning on January 1, 2011, the Company also applied the guidance to non-financial assets and liabilities measured at fair value on a non-recurring basis, which includes goodwill and intangible assets. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1 - Valuation is based upon unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 -Valuation is based upon quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable in the market.

Level 3 - Valuation is based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

The following table presents assets and liabilities that are measured and recognized at fair value as of June 30, 2013 on a recurring and non-recurring basis:

Description	Level 1	Level 2	Level 3	Gains (Losses)
Goodwill (non-recurring)	\$ -	\$ -	\$ 4,213,699	\$ -
Intangibles, net (non-recurring)	\$ -	\$ -	\$ 1,738,773	\$ -
Derivatives (recurring)	\$ -	\$ -	\$ 209,089	\$ (3,813,598)
Earn-out payable (non-recurring)	\$ -	\$ -	\$ 224,000	\$ -

The following table presents assets and liabilities that are measured and recognized at fair value as of December 31, 2012 on a recurring and non-recurring basis:

Description	Level 1	Level 2	Level 3	Gains (Losses)
Goodwill (non-recurring)	\$ -	\$ -	\$ 2,259,624	\$ (742,446)
Intangibles, net (non-recurring)	\$ -	\$ -	\$ 444,112	\$ (145,396)
Derivatives (recurring)	\$ -	\$ -	\$ 3,074,504	\$ 359,530

The Company recorded goodwill and intangible assets as a result of the acquisitions completed in 2011 and 2013.

These assets were valued with the assistance of a valuation consultant and consisted of Level 3 valuation techniques.

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As of December 31, 2012, the Company recorded derivative liabilities as a result of: (i) the variable maturity conversion feature (“VMCO”) in its convertible notes payable; (ii) the additional security issuance feature (“ASID”) in its convertible notes payable notes, common stock and warrants; and (iii) warrants issued to non-employees that are treated as derivative liabilities. These liabilities were valued with the assistance of a valuation consultant and consisted of Level 3 valuation techniques. As of June 30, 2013, the only remaining derivative liability related to the common stock and warrants.

The Company’s financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and notes payable. The estimated fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the short-term nature of these instruments. The carrying value of notes payable also approximates fair value because their terms are similar to those in the lending market for comparable loans with comparable risks. None of these instruments are held for trading purposes.

Accounts Receivable and Factoring Agreement

Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. The Company grants unsecured credit to substantially all of its 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 the Company cannot necessarily predict future changes in the financial stability of its customers, the Company cannot guarantee that its reserves will continue to be adequate.

From time to time, the Company 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 June 30, 2013 and December 31, 2012, the Company recorded an allowance for doubtful accounts of \$34,930 and \$44,700, respectively.

As of June 30, 2013, two customers’ balances represented 49% of total accounts receivable. As of December 31, 2012, one customer’s balance represented and 43% of total accounts receivable.

Factoring Agreement

In connection with a factoring agreement that the Company entered into in 2013, the Company transfers ownership of eligible accounts receivable with recourse to a third party purchaser in exchange for cash. The Company receives a percentage of the proceeds immediately upon sale of the account, and receives the remaining proceeds once the third party purchaser collects on the account. Proceeds from the transfer reflect the face value of the account less a discount. The discount is recorded as a loss in operations in the period of the sale.

Factoring discount fees, which increase based on the time frame of receivables outstanding, approximate 2% of the invoice amount, with the customer repaying the invoice within 90 days from the invoice date.

During the three months ended June 30, 2013, the Company sold \$210,886 of trade accounts receivable, received cash proceeds of \$239,918, and recorded fees and losses related to the sales of \$4,419 in general and administrative expense in the consolidated statement of operations.

During the six months ended June 30, 2013, the Company sold \$501,463 of trade accounts receivable, received cash proceeds of \$476,927, and recorded fees and losses related to the sales of \$10,054 in general and administrative expense in the consolidated statement of operations.

At June 30, 2013, the third party purchaser owed the Company \$14,482 which is recorded in other current assets.

Equipment

Equipment, which is recorded at cost, consists primarily of computer equipment and is depreciated using the straight-line method over the estimated useful lives of the related assets (generally five years or less). Costs incurred for maintenance and repairs are expensed as incurred and expenditures for major replacements and improvements are capitalized and depreciated over their estimated remaining useful lives.

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Depreciation expense for the three months ended June 30, 2013 and 2012 was \$1,934 and \$6,766, respectively. Depreciation expense for the six months ended June 30, 2013 and 2012 was \$3,790 and \$13,384, respectively. Accumulated depreciation amounts are noted in the table below.

Net property and equipment were as follows:

	June 30, 2013	December 31, 2012
Equipment	\$ 158,515	\$ 155,716
Furniture and Fixtures	14,569	14,569
Subtotal	173,084	170,285
Less accumulated depreciation	(159,964)	(156,174)
Total	<u>\$ 13,120</u>	<u>\$ 14,111</u>

Goodwill and Other Intangible Assets

In 2011, the Company completed three acquisitions which resulted in the recording of goodwill and other intangible assets; and the Company capitalized patent costs related to its acquisition of U.S. Patent Number 6,788,769 from eMediacy, Inc.

During the six months ended June 30, 2013, the Company completed two acquisitions which resulted in the recording of goodwill and other intangible assets. See Note 3.

The Company periodically reviews the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist. Goodwill and certain intangible assets are assessed annually, or when certain triggering events occur, for impairment using fair value measurement techniques. These events could include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. Specifically, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company uses Level 3 inputs and a discounted cash flow methodology to estimate the fair value of a reporting unit. A discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about future cash flows, growth rates, and discount rates. The assumptions about future cash flows and growth rates are based on the Company's budget and long-term plans. Discount rate assumptions are based on an assessment of the risk inherent in the respective reporting units. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The Company's evaluation of goodwill completed during the year ended December 31, 2012 resulted in an impairment charge of \$742,446, related to its three acquisitions during 2011.

As of June 30, 2013 and December 31, 2012, amortizable intangible assets consist of patents, trademarks, customer contracts, customer and merchant relationships, trade name, acquired technology, and non-compete agreements. These intangibles are being amortized on a straight line basis over their estimated useful lives of one to twenty years.

During the year ended December 31, 2012 the Company recognized an impairment charge of \$145,396 related to the intangible assets acquired in its three acquisitions during 2011.

Impairment of Long-Lived Assets

The Company has adopted Accounting Standards Codification subtopic 360-10, "Property, Plant and Equipment" ("ASC 360-10"). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates its long-lived assets for impairment annually or more often if events and circumstances warrant. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires that those assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks.

The Company reviews the terms of the common stock, warrants and convertible debt it issues 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.

See Note 5 for detailed information on the Company's derivative liabilities.

Revenue Recognition

The Company's "C4" Mobile Marketing and Customer Relationship Management (CRM) and Txtstation Control Center platforms are hosted solutions. The Company generates revenue from licensing its software to clients in its software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services. The Company recognizes license fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. The Company recognizes revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. The Company considers authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting. As for the Mobivity and Boomtext platforms, which are both hosted solutions, revenue is principally derived from subscription fees from customers. The subscription fee is billed on a month to month basis with no contractual term and is collected by credit card for Mobivity and collected by cash and credit card for Boomtext. 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.

The company generates revenue from the Stamp App through customer agreements with business owners. Revenue is principally derived from monthly subscription fees which provide a license for unlimited use of the Stamp App by the business owner and their customers. The subscription fee is billed each month to the business owner. There are no setup fees and revenue is recognized monthly as the subscription revenues are billed. There are no per-minute or transaction fees associated with the Stamp App.

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As of December 31, 2012, deferred revenues from a related party totaled \$35,262. This party ceased being a related party in June 2013. The Company recognized deferred revenue from this related party during the three months ended June 30, 2013 and 2012 totaling \$-0- and \$51,000, respectively. The Company recognized deferred revenue from this related party during the six months ended June 30, 2013 and 2012 totaling \$-0- and \$84,000, respectively.

As of June 30, 2013 and December 31, 2012, deferred revenues from third parties totaled \$300,324 and \$164,631, respectively.

During the three months ended June 30, 2013, one customer accounted for 30% of our revenues. During the six months ended June 30, 2013, one customer accounted for 30% of our revenues. No such concentrations existed in 2012.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 718 Stock Compensation, which establishes accounting for equity instruments exchanged for employee services. Under such provisions, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense, under the straight-line method, over the employee's requisite service period (generally the vesting period of the equity grant). In accordance with ASC 718, the Company estimates forfeitures at the time of grant and revises the estimates if necessary, if actual forfeiture rates differ from those estimates. Stock options issued to employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model.

The Company recorded employee stock based compensation for the three months ended June 30, 2013 and 2012 of \$1,184,045 and \$95,568, respectively.

The Company recorded employee stock based compensation for the six months ended June 30, 2013 and 2012 of \$1,277,794 and \$210,429, respectively.

The Company accounts for equity instruments, including restricted stock or stock warrants, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock warrants issued to non-employees are accounted for as derivative liabilities at their estimated fair value determined using a Monte Carlo simulation. At the date of issuance, the fair value of the stock warrants is expensed to change in fair value of derivative liabilities. The fair value of options granted to non-employees is re-measured as they vest, and the resulting change in value, if any, is recognized as change in fair value of derivative liabilities during the period the related services are rendered. Restricted stock issued to non-employees is accounted for at its estimated fair value as it vests. See Note 5.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the three month and six month periods ended June 30, 2013 and 2012, the comprehensive loss was equal to the net loss.

Net Loss Per Common Share

Net loss per share is presented as both basic and diluted net loss per share. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. During the three month and six month periods ended June 30, 2013 and 2012, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive.

Reclassifications

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

Recent Accounting Pronouncements

In 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance clarifying the accounting for the release of cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. We do not anticipate that this adoption will have a significant impact on our financial position, results of operations, or cash flows.

In 2013, FASB issued new accounting guidance clarifying the accounting for obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. We do not anticipate that this adoption will have a significant impact on our financial position, results of operations, or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in the ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

-Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period; and

-Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Early adoption is permitted. The adoption of ASU No. 2013-02 is not expected to have a material impact on our financial position or results of operations.

In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which clarifies which instruments and transactions are subject to the offsetting disclosure requirements originally established by ASU 2011-11. The new ASU addresses preparer concerns that the scope of the disclosure requirements under ASU 2011-11 was overly broad and imposed unintended costs that were not commensurate with estimated benefits to financial statement users. In choosing to narrow the scope of the offsetting disclosures, the Board determined that it could make them more operable and cost effective for preparers while still giving financial statement users sufficient information to analyze the most significant presentation differences between financial statements prepared in accordance with U.S. GAAP and those prepared under IFRSs. Like ASU 2011-11, the amendments in this update will be effective for fiscal periods beginning on, or after January 1, 2013. The adoption of ASU 2013-01 is not expected to have a material impact on our financial position or results of operations.

In October 2012, the FASB issued ASU 2012-04, “Technical Corrections and Improvements” in Accounting Standards Update No. 2012-04. The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on our financial position or results of operations.

In August 2012, the FASB issued ASU 2012-03, “Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (“SAB”) No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)” in Accounting Standards Update No. 2012-03. This update amends various SEC paragraphs pursuant to the issuance of SAB No. 114. The adoption of ASU 2012-03 is not expected to have a material impact on our financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, “Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment” in ASU No. 2012-02. This update amends ASU 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment and permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of ASU 2012-02 is not expected to have a material impact on our financial position or results of operations.

3. Acquisitions

Sequence Acquisition

On May 13, 2013, the Company acquired certain assets of Sequence, LLC (“Sequence”) pursuant to an asset purchase agreement. Pursuant to the asset purchase agreement, the Company acquired all application software, URL’s, websites, trademarks, brands, customers and customer lists from Sequence. The Company assumed no liabilities of Sequence.

The purchase price consisted of: (1) \$300,000 in cash; (2) 750,000 shares of the Company’s common stock valued based on the closing market price on the acquisition date at \$183,750; and (3) twenty-four monthly earn-out payments consisting of 10% of the eligible monthly revenue subsequent to closing with a fair value of \$224,000.

The Company completed the acquisition in furtherance of its strategy to acquire small, privately owned enterprises in the mobile marketing sector through an asset purchase structure. This acquisition was consistent with the Company's purchase price model in which equity will represent most of the purchase price plus a small cash component and, in some cases, the assumption of specific liabilities.

The acquisition has been accounted for as a business combination and the Company valued the assets acquired at their fair values on the date of acquisition. An independent valuation expert (Vantage Point Advisors) was hired to assist the Company in determining these fair values. Accordingly, the assets of the acquired entity were recorded at their estimated fair values at the date of the acquisition.

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

Merchant relationships	\$ 181,000
Trade name	76,000
Developed technology	71,000
Goodwill	<u>379,750</u>
Total assets acquired	<u>\$ 707,750</u>

The purchase price consisted of the following:

Cash	\$	300,000
Common stock		183,750
Earn-out payable		224,000
Total purchase price	\$	<u>707,750</u>

Pro forma results of operations were not included due to the investment test not reaching the level of a significant acquisition.

Front Door Insights Acquisition

On May 20, 2013, the Company acquired certain assets and liabilities of Front Door Insights, LLC (“FDI”), pursuant to an asset purchase agreement. The assets and liabilities acquired from FDI consisted of cash on hand, accounts receivable, all rights under all contracts other than excluded contracts, prepaid expenses, all technology and intellectual property rights, accounts payable, and obligations under a commercial lease.

The purchase price consisted of: (1) \$100,000 in cash; (2) a promissory note in the principal amount of \$1,400,000; and (3) 7,000,000 shares of the Company’s common stock valued based on the closing market price on the acquisition date at \$1,034,310.

The promissory note delivered by the Company to FDI under the asset purchase agreement was non-interest bearing and was due and payable on August 20, 2013. As a result of note payable not bearing interest, a discount on the note payable of \$34,904 was recorded. The Company paid the \$1,400,000 promissory note on June 17, 2013. As a result of the early repayment, the discount of \$34,904 was fully amortized on June 17, 2013.

The asset purchase agreement includes a working capital adjustment pursuant to which the number of shares issuable to FDI will be increased, or decreased, in the event the working capital of FDI exceeds, or is less than, \$10,000, respectively, as of the closing. In either event, the number of shares issuable to FDI will be increased or decreased, as the case may be, by a share amount equal to the amount by which the working capital as of the closing exceeds or is less than \$10,000, divided by \$0.25. Pursuant to the asset purchase agreement, 25% of the shares to be issued to FDI, or 1,750,000 shares, will be held in escrow and available for offset against any claims for indemnification that might be brought by the Company against FDI or its members, during the first 12 months following the close, for certain breaches of the asset purchase agreement.

The asset purchase agreement contains customary representations, warranties and covenants by the parties, including each party’s agreement to indemnify the other against any claims or losses arising from their breach of the asset purchase agreement. FDI and its members have also agreed that for a period of three years following the closing not to engage in the business of providing interactive mobile marketing platforms or services or to solicit the pre-closing clients, vendors or employees of FDI, except in each case on behalf of the Company.

The Company completed the acquisition in furtherance of its strategy to acquire small, privately owned enterprises in the mobile marketing sector through an asset purchase structure. This acquisition was consistent with the Company's purchase price model in which equity will represent most of the purchase price plus a small cash component and, in some cases, the assumption of specific liabilities.

The acquisition has been accounted for as a business combination and the Company valued all assets and liabilities acquired at their fair values on the date of acquisition. An independent valuation expert (Vantage Point Advisors) was hired to assist the Company in determining these fair values. Accordingly, the assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the acquisition.

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

Cash	\$	5,500
Accounts receivable		27,467
Contracts		813,000
Customer relationships		22,000
Developed technology		96,000
Non-compete agreement		124,000
Goodwill		<u>1,574,325</u>
Total assets acquired		2,662,292
Liabilities assumed		<u>(162,886)</u>
Net assets acquired	\$	<u>2,499,406</u>

The purchase price consists of the following:

Cash	\$	100,000
Promissory note, net		1,365,096
Common stock		<u>1,034,310</u>
Total purchase price	\$	<u>2,499,406</u>

The following information presents unaudited pro forma consolidated results of operations for the six months ended June 30, 2013 as if the FDI acquisition described above had occurred on January 1, 2013, and the results of operations for the year ended December 31, 2012 as if the FDI acquisition described above had occurred on January 1, 2012. The following unaudited pro forma financial information gives effect to certain adjustments, including the increase in compensation expense related to additional head-count and amortization of acquired intangible assets. 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.

Pro Forma Results of Operations for the Six Months Ended June 30, 2013

Mobivity Holdings Corp.
Consolidated Statements of Operations
(Unaudited)

	<u>Mobivity</u>	<u>FDI</u>	<u>Pro forma adjustments</u>	<u>Pro forma combined</u>
Revenues				
Revenues	\$ 2,113,603	\$ 162,280	\$ -	\$ 2,275,883
Cost of revenues	<u>596,012</u>	<u>54,371</u>	-	<u>650,383</u>
Gross margin	1,517,591	107,909	-	1,625,500
Operating expenses				
General and administrative	1,320,323	71,720	-	1,392,043
Sales and marketing	1,798,341	4,888	229,258 (b)	2,032,487
Engineering, research, and development	251,239	87,994	-	339,233
Depreciation and amortization	<u>92,129</u>	<u>-</u>	<u>68,469 (c)</u>	<u>160,598</u>
Total operating expenses	3,462,032	164,602	297,727	3,924,361
Loss from operations	(1,944,441)	(56,693)	(297,727)	(2,298,861)
Other income/(expense)				
Interest income	21	-	-	21
Interest expense	(6,346,553)	(6,785)	-	(6,353,338)
Change in fair value of derivative liabilities	(3,813,598)	-	-	(3,813,598)
Gain (loss) on adjustment in contingent consideration	<u>(193,465)</u>	<u>-</u>	<u>-</u>	<u>(193,465)</u>
Total other income/(expense)	(10,353,595)	(6,785)	-	(10,360,380)
Loss before income taxes	(12,298,036)	(63,478)	(297,727)	(12,659,241)
Income tax expense	-	-	-	-
Net loss	<u>\$ (12,298,036)</u>	<u>\$ (63,478)</u>	<u>\$ (297,727)</u>	<u>\$ (12,659,241)</u>
Net loss per share - basic and diluted	<u>\$ (0.42)</u>			<u>\$ (0.37)</u>
Weighted average number of shares				
during the period - basic and diluted	<u>29,224,981</u>			<u>34,630,537</u>

Pro Forma Results of Operations for the Year ended December 31, 2012

	<u>Mobivity</u>	<u>FDI</u>	<u>Pro forma adjustments</u>	<u>Pro forma combined</u>
Revenues				
Revenues	\$ 4,079,745	\$ 347,797	\$ -	\$ 4,427,542
Cost of revenues	<u>1,300,325</u>	<u>183,819</u>	-	<u>1,484,144</u>
Gross margin	2,779,420	163,978	-	2,943,398
Operating expenses				
General and administrative	2,984,531	155,568	-	3,140,099
Sales and marketing	1,562,520	45,292	1,541,050 (b)	3,148,862
Engineering, research, and development	562,459	199,953	-	762,412
Depreciation and amortization	549,151	-	178,509 (c)	727,660
Goodwill impairment	742,446	-	-	742,446
Intangible asset impairment	<u>145,396</u>	<u>-</u>	<u>-</u>	<u>145,396</u>
Total operating expenses	6,546,503	400,813	1,719,559	8,666,875
Loss from operations	(3,767,083)	(236,835)	(1,719,559)	(5,723,477)
Other income/(expense)				
Interest income	2,833	-	-	2,833
Interest expense	(4,559,564)	(4,105)	(234,115) (a)	(4,797,784)
Change in fair value of derivative liabilities	359,530	-	-	359,530
Gain on adjustment in contingent consideration	<u>625,357</u>	<u>-</u>	<u>-</u>	<u>625,357</u>
Total other income/(expense)	(3,571,844)	(4,105)	(234,115)	(3,810,064)
Loss before income taxes	(7,338,927)	(240,940)	(1,953,674)	(9,533,541)
Income tax expense	-	-	-	-
Net loss	<u>\$ (7,338,927)</u>	<u>\$ (240,940)</u>	<u>\$ (1,953,674)</u>	<u>\$ (9,533,541)</u>
Net loss per share - basic and diluted	<u>\$ (0.32)</u>			<u>\$ (0.32)</u>
Weighted average number of shares				
during the period - basic and diluted	<u>23,069,669</u>			<u>30,069,669</u>

Pro Forma Adjustments

The following pro forma adjustments are based upon the value of the tangible and intangible assets acquired as determined by an outside, independent valuation firm.

- (a) Represents interest expense and note discount amortization for notes payable issued in conjunction with the transaction.
- (b) Represents salary, bonus and stock based compensation (year ended December 21, 2012) for headcount added in conjunction with the transaction.
- (c) Represents amortization of intangible assets for the period.

4. Goodwill and Purchased Intangibles

Goodwill

The carrying value of goodwill at June 30, 2013 and December 31, 2012 was \$4,213,699 and \$2,259,624, respectively. Goodwill at June 30, 2013 includes \$1,954,075 recorded as a result of two acquisitions during the three months ended June 30, 2013. See Note 3.

Intangible assets

The following table presents details of the Company's total purchased intangible assets as of June 30, 2013 and December 31, 2012:

	Balance at December 31, 2012	Additions	Amortization	Balance at June 30, 2013
Patents and trademarks	\$ 111,620	\$ -	\$ (4,199)	\$ 107,421
Customer contracts	78,765	813,000	(25,164)	866,601
Customer and merchant relationships	29,056	203,000	(16,428)	215,628
Trade name	30,588	76,000	(6,413)	100,175
Acquired technology	193,458	167,000	(30,867)	329,591
Non-compete agreement	625	124,000	(5,268)	119,357
	<u>\$ 444,112</u>	<u>\$ 1,383,000</u>	<u>\$ (88,339)</u>	<u>\$ 1,738,773</u>

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

During the six months ended June 30, 2013, the following intangibles were purchased with the following useful lives:

Sequence, LLC:

	Fair value	Useful Lives
Merchant relationships	\$ 181,000	12 years
Trade name	76,000	5 years
Developed technology	71,000	5 years

Front Door Insights LLC:

	Fair value	Useful Lives
Contracts	813,000	7 years
Customer relationships	22,000	12 years
Developed technology	96,000	5 years
Non-compete agreement	124,000	3 years

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During the three months ended June 30, 2013 and 2012, the Company recorded amortization expense related to its purchased intangibles of \$56,382 and \$139,999, respectively, which is included in depreciation and amortization in the consolidated statement of operations.

During the six months ended June 30, 2013 and 2012, the Company recorded amortization expense related to its purchased intangibles of \$88,339 and \$287,999, respectively, which is included in depreciation and amortization in the consolidated statement of operations.

The estimated future amortization expense of purchased intangible assets as of June 30, 2013 is as follows:

Year ending December 31,	Amount
2013	\$ 174,162
2014	319,268
2015	319,268
2016	245,283
2017	190,064
Thereafter	490,728
Total	\$ 1,738,773

Beginning in 2011, the Company evaluated its purchased intangibles for possible impairment on an ongoing basis. When impairment indicators exist, the Company will perform an assessment to determine if the intangible asset has been impaired and to what extent. The assessment of purchased intangibles impairment is conducted by first estimating the undiscounted future cash flows to be generated from the use and eventual disposition of the purchased intangibles and comparing this amount with the carrying value of these assets. If the undiscounted cash flows are less than the carrying amounts, impairment exists and future cash flows are discounted at an appropriate rate and compared to the carrying amounts of the purchased intangibles to determine the amount of the impairment.

5. Derivative Liabilities

Convertible notes payable and underlying warrants

As discussed in Note 6 under Bridge Financing, the Company issued convertible notes payable that provided for the issuance of warrants to purchase its common stock at a future date. The conversion term for the convertible notes was variable based on certain factors. The number of warrants to be issued was based on the future price of the Company's common stock.

As of December 31, 2012 and through June 17, 2013, the number of warrants to be issued was indeterminate. Due to the fact that the number of warrants issuable was indeterminate, the equity environment was tainted and the fair value of all of the warrants underlying the convertible notes payable was recorded as a derivative liability. The fair values of the VMCO and the ASID were recorded as derivative liabilities on the issuance date pursuant to ASC 815-15 "Embedded Derivatives".

On June 17, 2013, the Company converted all of the outstanding convertible notes payable into shares of its common stock, and issued the warrants underlying the convertible notes payable. At that time, the derivative liabilities related to the VMCO and ASID totaling \$7,792,657 were converted into additional paid-in capital.

Private Placement Shares and Warrants

As discussed in Note 7 under Common Stock, the Company completed a private placement in September 2011 for the sale of units consisting of shares of common stock and warrants. Both the common shares and the warrants contain anti-dilutive, or down round, price protection. Pursuant to ASC 815-15 "Embedded Derivatives" and ASC 815-40 "Contracts in Entity's Own Equity", the Company recorded a derivative liability for the warrants issued in the transactions.

The down round price protection on the common shares expired in August 2012, and the down round price protection for the warrants terminates when the warrants expire or are exercised.

Allonge

As discussed in Note 6 under Bridge Financing, all note holders with convertible notes payable maturing in February 2012 extended the maturity date through May 2012. As consideration to the note holders for the extension of the maturity date, the Company provided allonges which consisted of the accrued interest on each convertible note payable as of January 31, 2012. The allonges were convertible into shares of common stock at the latest financing price. The value of the allonges was recorded as a derivative liability at the issuance date.

On June 17, 2013, the number of shares issuable under the allonges was determined, but the shares were not issued prior to June 30, 2013. The value of the allonges as of June 17, 2013 totaling \$131,248 was recorded as equity payable, thus removing the derivative liability.

Non-employee Warrants

As discussed in Note 7 under Warrants, the Company accounts for warrants issued to non-employees as derivative liabilities. On June 17, 2013, the equity environment was no longer tainted and the derivative liabilities related to the non-employee warrants totaling \$176,555 were converted into additional paid-in capital.

Summary

The fair values of the Company's derivative liabilities are estimated at the issuance date and are revalued at each subsequent reporting date using a Monte Carlo simulation discussed below.

At June 30, 2013 and December 31, 2012, the Company recorded current derivative liabilities of \$209,089 and \$3,074,504, respectively.

The net change in fair value of the derivative liabilities for the three months ended June 30, 2013 and 2012 was a loss of \$2,812,048 and a gain of \$654,477, respectively, which were reported as other income/(expense) in the consolidated statements of operations.

The net change in fair value of the derivative liabilities for the six months ended June 30, 2013 and 2012 was a loss of \$3,813,598 and a gain of \$193,990, respectively, which were reported as other income/(expense) in the consolidated statements of operations.

The following table presents the derivative liabilities by instrument type as of June 30, 2013 and December 31, 2012:

<u>Derivative Value by Instrument Type</u>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Convertible Bridge Notes	\$ -	\$ 2,850,085
Common Stock and Warrants	209,089	129,378
Non-employee Warrants	-	95,041
	<u>\$ 209,089</u>	<u>\$ 3,074,504</u>

The following table presents details of the Company's derivative liabilities from December 31, 2012 to June 30, 2013:

Balance December 31, 2012	\$ 3,074,504
Issuances in derivative value due to new security issuances of notes	4,614,714
Issuances in derivative value due to vesting of non-employee warrants	26,969
Adjustment to derivative liability due to note repayment	(40,511)
Adjustment to derivative liability due to note conversion into new notes	(3,152,786)
Adjustment to derivative liability due to note conversion into equity	(7,923,875)
Adjustment to derivative liability due to non-employee warrant conversion	(176,555)
Change in fair value of derivative liabilities	3,786,629
Balance June 30, 2013	<u>\$ 209,089</u>

The Company calculated the fair value of the compound embedded derivatives using a complex, customized Monte Carlo simulation model suitable to value path dependent American options. The model uses the risk neutral methodology adapted to value corporate securities. This model utilized subjective and theoretical assumptions that can materially affect fair values from period to period.

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Key inputs and assumptions used in valuing the Company's derivative liabilities are as follows:

For issuances of notes, common stock and warrants:

- Stock prices on all measurement dates were based on the fair market value
- Down round protection for dates prior to April 15, 2013 is based on the subsequent issuance of common stock at prices less than \$0.50 per share and warrants with exercise prices less than \$0.50 per share. Down round protection for dates between April 15, 2013 and June 17, 2013 is based on the subsequent issuance of common stock at prices less than \$0.25 per share and warrants with exercise prices less than \$0.25 per share. Thereafter, down round protection is based on the subsequent issuance of common stock at prices less than \$0.20 per share and warrants with exercise prices less than \$0.20 per share
- The probability of a future equity financing event triggering the down round protection was estimated at 100% for dates prior to June 17, 2013 and 0% for subsequent measurement dates
- Computed volatility ranging from 86.1% to 128.9%
- Risk free rates ranging from 0.05% to 1.41%

For issuances of non-employee warrants:

- Computed volatility of 128.9%
- Risk free rates ranging from 0.30% to 0.66%
- Expected life (years) ranging from 2.48 to 3.27

See Note 9 for a discussion of fair value measurements.

6. Bridge Financing, Notes Payable, Accrued Interest and Cash Payment Obligation

Bridge Financing

Summary

Prior to June 2013, the Company issued 10% Senior Secured Convertible Bridge Notes Payable to various accredited investors, and then extended the due dates on the majority of the convertible notes payable several times. These convertible notes payable are collectively referred to herein as "Bridge Notes". In June 2013, the outstanding principal of the Bridge Notes totaling \$4,984,720 was converted into 24,923,602 shares of the Company's common stock at \$0.20 per share. As of June 30, 2013, the Company has no Bridge Notes outstanding.

The Bridge Notes contained variable maturity dates and additional share issuance obligations. In accordance with ASC 470-20 "Debt with Conversion and Other Options", the Company recorded discounts for the VMCO and ASID. The discounts were amortized to interest expense over the term of the convertible notes payable using the effective interest method. In accordance with ASC 815-15 "Embedded Derivatives", the Company determined that the VMCO and the ASID represented embedded derivative features, and these were shown as derivative liabilities on the consolidated balance sheet. See Note 5.

The Company capitalized costs associated with the issuance of the Bridge Notes, and amortized these costs to interest expense over the term of the related Bridge Notes using the effective interest method.

The following table summarizes information relative to the outstanding new Bridge Notes at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Bridge notes payable	\$ -	\$ 4,342,418
Less unamortized discounts:		
VMCO	-	(481,390)
ASID	-	(1,003,359)
Bridge notes payable, net of discounts	<u>\$ -</u>	<u>\$ 2,857,669</u>

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Following is a detailed discussion of the Bridge Notes transactions.

2011 and Prior

From November 2010 through March 2011, the Company issued to a number of accredited investors a series of its Bridge Notes in the aggregate principal amount of \$1,010,000. The Bridge Notes accrued interest at the rate of 10% per annum.

The entire principal amount evidenced by the Bridge Notes (the "Principal Amount") plus all accrued and unpaid interest were due on the earlier of (i) the date the Company completed a financing transaction for the offer and sale of shares of common stock (including securities convertible into or exercisable for its common stock), in an aggregate amount of no less than 125% of the Principal Amount (a "Qualifying Financing"), and (ii) November 2, 2011. If the Bridge Notes were held to maturity, the Company would pay, at the option of the holder: i) in cash or ii) in securities to be issued by the Company in the Qualifying Financing at the same price paid by other investors. The Bridge Notes were secured by a first priority lien and security interest in all of the Company's assets.

In November 2011, the Company entered into agreements with all holders of the then outstanding Bridge Notes. Under the terms of the agreements, holders of Bridge Notes totaling \$800,000 agreed to extend the maturity due date of the Bridge Notes to February 2, 2012. For these note holders, no change occurred in their rights.

Holders of the balance of the Bridge Notes totaling \$210,000 agreed to convert the entire principal amount plus all accrued and unpaid interest of \$20,271 into units (each, a "Unit"), each of which consists of one share of common stock of the Company and a four-year warrant to purchase one share of the Company's common stock at \$2.00 per share. The conversion took place at a price of \$1.50 per Unit. Accordingly, the Company issued an aggregate of 153,515 shares of common stock and 153,515 warrants. As a result of the conversion, the holders of the converted Bridge Notes forfeited all rights there under, including the right to acquire warrants to purchase the Company's common stock.

Also in November 2011, the Company issued additional Bridge Notes in the aggregate principal amount of \$262,500. These Bridge Notes were due February 2, 2012 and contained the same rights and privileges as the previously issued Bridge Notes.

2012

In January 2012, the Company issued additional Bridge Notes in the principal amount of \$520,000. These Bridge Notes were due February 2, 2012 and contained the same rights and privileges as the previously issued Bridge Notes.

In March 2012, the Company repaid Bridge Notes totaling \$65,000.

In April 2012, all note holders with Bridge Notes maturing in February 2, 2012 extended the maturity date through May 2, 2012. As consideration to the note holders for the extension of the maturity date, the Company provided allonges which consisted of the accrued interest for each Bridge Note as of January 31, 2012, which are convertible into shares of common stock at the latest financing price. The value of the allonges was recorded as a derivative liability. See Note 4.

In March 2012 and April 2012, the Company issued additional Bridge Notes in the aggregate principal amount of \$220,100 with a due date of May 2, 2012. In May 2012, these notes were cancelled and converted into new Bridge Notes discussed below.

In May and June 2012, the Company issued to a number of accredited investors its new Bridge Notes in the principal amount of \$4,347,419 (the "new Bridge Notes"), consisting of (i) \$2,656,250 of new funds and (ii) \$1,691,169 of principal amount plus accrued and unpaid interest outstanding under its previously issued Bridge Notes that were cancelled and converted into new Bridge Notes. The new Bridge Notes accrue interest at the rate of 10% per annum.

The entire principal amount under the new Bridge Notes (the "Principal Amount") plus all accrued and unpaid interest is due on the earlier of (i) the date the Company completes a financing transaction for the offer and sale of shares of common stock (including securities convertible into or exercisable for its common stock), in an aggregate amount of no less than 125% of the Principal Amount (a "Qualifying Financing"), and (ii) October 15, 2012, which date, as described below, was later extended to April 15, 2013. Payments may be made in cash, or, at the option of the holder of the new Bridge Notes, in securities to be issued by the Company in the Qualifying Financing at the same price paid for such securities by other investors. The new Bridge Notes are secured by a first priority lien and security interest in all of the Company's assets.

The Company also had the obligation to issue to the holders of the new Bridge Notes on the date that is the earlier of the repayment of the new Bridge Notes or the completion of the new Qualifying Financing, at their option:

- five year warrants to purchase that number of shares of common stock equal to the Principal Amount plus all accrued and unpaid interest divided by the per share purchase price of the common stock offered and sold in the Qualifying Financing (the "Offering Price") which warrants shall be exercisable at the Offering Price and shall include cashless exercise provisions commencing 18 months from the date of issuance of the warrants if there is not at that time an effective registration statement covering the shares of common stock exercisable upon exercise of the warrants, or
- that number of shares of common stock equal to the product arrived at by multiplying (x) the Principal Amount plus all accrued and unpaid interest divided by the Offering Price and (y) 0.33.

The Company granted piggy-back registration rights with respect to the securities to be issued in connection with the new Bridge Notes.

The new Bridge Notes further provide that in the event of a change of control transaction, the proceeds from such transaction must be used by the Company to pay to the holders of the new Bridge Notes, pro rata based on the amount of new Bridge Notes owned by each holder, an amount equal to 1.5 times the amount of the aggregate principal amount outstanding under the new Bridge Notes, plus all accrued and unpaid interest due there under, plus all other fees, costs or other charges due there under.

The holders of the new Bridge Notes were also granted the right to appoint two designees to serve as members of the Company's board of directors, which members will also serve as members of the Compensation Committee and the Audit Committee of the Company's board of directors.

The Company used \$184,081 from the proceeds of the sale of the new Bridge Notes to pay off existing principal balances under the Bridge Notes that were not cancelled and converted into the new Bridge Notes.

In October 2012 and continuing thereafter, the Company entered into amendments with the holders the new Bridge Notes. Under the terms of the amendments, the holders of new Bridge Notes in the aggregate principal amount of \$4,342,419 agreed to extend the maturity date of the new Bridge Notes to April 15, 2013. In consideration of the new Bridge Note holders' agreement to extend the maturity date, the amendment provides that the holder shall have the option to convert the principal and interest under the new Bridge Note into the securities offered by the Company in a qualifying equity financing at the lower of (a) the same price paid for such securities by other investors investing in the financing or (b) \$0.50 per share (subject to adjustment in the event of a stock split, reclassification or the like). Prior to the amendment, the conversion option under the new Bridge Note entitled the holder to convert the principal and interest under the new Bridge Note into the securities offered by the Company in a qualifying equity financing at the same price paid for such securities by other investors investing in the financing. The conversion price of \$0.50 in (b) above triggered the price protection guarantee contained in the warrants issued in the Company's 2011 private placement, and the exercise price on the warrants changed from \$2.00 per share to \$0.50 per share.

In November 2012, the Company repaid a new Bridge Note totaling \$5,000.

2013

In January 2013, the Company partially repaid a new Bridge Note totaling \$21,040.

In March 2013, the Company issued new Bridge Notes totaling \$200,000 that contain the same rights and privileges as the previously issued new Bridge Notes.

In April 2013, the Company issued new Bridge Notes totaling \$75,000 that contain the same rights and privileges as the previously issued new Bridge Notes.

In April 2013, the Company repaid a new Bridge Note totaling \$36,659.

In April 2013, the Company issued a new Bridge Note to its Chief Financial Officer totaling \$20,000 that contains the same rights and privileges as the previously issued new Bridge Notes, the due date of which was extended to October 15, 2013.

In May 2013, a majority of the new Bridge Note holders agreed to extend the maturity date of the new Bridge Notes to October 15, 2013 from April 15, 2013. In consideration of the new Bridge Note holders' agreement to extend the maturity date, the amendment provides that the new Bridge Note holders have the option to convert the principal and interest under the new Bridge Note into the securities offered by the Company in a qualifying equity financing at the lower of (a) the same price paid for such securities by other investors investing in the financing or (b) \$0.25 per share (subject to adjustment in the event of a stock split, reclassification or the like). Prior to the amendment, the conversion option under the new Bridge Notes entitled the new Bridge Note holders to convert the principal and interest under the new Bridge Notes into the securities offered by the Company in a qualifying equity financing at the lower of (a) the same price paid for such securities by other investors investing in the financing or (b) \$0.50 per share (subject to adjustment in the event of a stock split, reclassification or the like). As a result of this amendment and additional consideration given, the Bridge Note derivatives were revalued on April 15, 2013, at the fair value of \$4,052,148, and the debt discount was recorded with the offset to derivative liabilities. During the period from April 15, 2013 through June 17, 2013, the entire balance of the note discounts was amortized to interest expense as the conversion on June 17, 2013, triggered the immediate recognition of the full value of the debt discount.

In May 2013, the Company issued new Bridge Notes totaling \$387,500 that contain the same rights and privileges as the previously issued and amended new Bridge Notes.

In May 2013, the Company issued a new Bridge Note to its Chief Executive Officer totaling \$17,500 that contains the same rights and privileges as the previously issued and amended new Bridge Notes.

In June 2013, the Company completed a qualifying equity financing at \$0.20 per share. See Note 7. Pursuant to the terms of the new Bridge Notes, the Company converted note principal totaling \$4,984,720 into 24,923,602 shares of the Company's common stock at \$0.20 per share. Also, in June 2013, the Company converted accrued interest on the Bridge Notes totaling \$369,786 into 1,848,930 shares of the Company's common stock at \$0.20 per share.

Certain note holders elected to receive cash payment for their accrued interest, and the remaining accrued interest on the Bridge Notes at June 30, 2013 totaled \$95,404, which was paid in July 2013.

Discounts recorded related to the Bridge Notes

In accordance with ASC 470-20 "Debt with Conversion and Other Options", the Company recorded discounts to the Bridge Notes for the VMCO and ASID. The discounts were amortized to interest expense over the term of the Bridge Notes using the effective interest method. As of June 30, 2013, all of the discounts related to the Bridge Notes were recognized as interest expense in conjunction with the conversion of the Bridge Notes into shares of the Company's common stock.

In accordance with ASC 815-15 "Embedded Derivatives", the Company determined that the VMCO and the ASID represented embedded derivative features, and these were shown as derivative liabilities on the balance sheet. See Note 5.

The Company calculated the fair value of the compound embedded derivatives associated with the Bridge Notes utilizing a complex, customized Monte Carlo simulation model suitable to value path dependent American options. The model uses the risk neutral methodology adapted to value corporate securities. This model utilized subjective and theoretical assumptions that can materially affect fair values from period to period.

The following table presents details of the Company's discounts to its Bridge Notes from December 31, 2011 to June 30, 2013:

	<u>VMCO</u>	<u>ASID</u>	<u>Total</u>
December 31, 2011	\$ (12,031)	\$ (47,739)	\$ (59,770)
Additions	(1,409,797)	(3,942,607)	(5,352,404)
Amortization	<u>940,438</u>	<u>2,986,987</u>	<u>3,927,425</u>
December 31, 2012	(481,390)	(1,003,359)	(1,484,749)
Additions	(1,936,191)	(2,678,523)	(4,614,714)
Amortization	<u>2,417,581</u>	<u>3,681,882</u>	<u>6,099,463</u>
June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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During the three months ended June 30, 2013 and 2012, the Company recorded note discount amortization related to the Bridge Notes to interest expense of \$4,764,734 and \$741,444, respectively.

During the six months ended June 30, 2013 and 2012, the Company recorded note discount amortization related to the Bridge Notes to interest expense of \$6,099,463 and \$1,014,813, respectively

Deferred financing costs related to the Bridge Notes

The Company capitalized deferred financing costs and amortized the capitalized amounts to interest expense over the term of the Bridge Notes using the effective interest method. The Company recorded interest expense related to the amortization of deferred financing costs for the three months ended June 30, 2013 and 2012 totaling \$-0- and \$65,703, respectively. The Company recorded interest expense related to the amortization of deferred financing costs for the six months ended June 30, 2013 and 2012 totaling \$-0- and \$100,857, respectively.

Digimark, LLC Notes

As partial consideration for the acquisition of Boomtext in 2011, the Company issued an unsecured subordinated promissory note in the principal amount of \$194,658. The promissory note did not bear interest; was payable in installments (varying in amount) from August 2011 through October 2012; and was subordinated to the Company's obligations under its Bridge Notes discussed above.

The \$194,658 unsecured subordinated promissory note did not bear interest. Accordingly, the Company recorded the promissory note at the present value of the payments over the subsequent periods which amounted to \$182,460. The Company used a discount rate of 6.25% in calculating the net present value of the unsecured promissory note. The discount rate was based on the Company's estimated cost of debt capital. Under the effective interest method, the Company accreted the debt discount to the face amount of the promissory note.

Accretion of the debt discount for the three months ended June 30, 2013 and 2012 totaled \$-0- and \$2,466, respectively. Accretion of the debt discount for the six months ended June 30, 2013 and 2012 totaled \$-0- and \$4,422, respectively. Accretion of the debt discount was charged to interest expense in accordance with FASB ASC 480 "Distinguishing Liabilities from Equity".

As of December 31, 2012, the outstanding balance on the note payable was \$100,000, which was paid in June 2013.

Summary of Notes Payable and Accrued Interest

The following table summarizes the Company's notes payable and accrued interest as of June 30, 2013 and December 31, 2012:

	<u>Notes Payable</u>		<u>Accrued Interest</u>	
	<u>June 30, 2013</u>	<u>December 31, 2012</u>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Bridge notes, net, as discussed above	\$ -	\$ 2,857,669	\$ 95,404	\$ 261,213
Convertible notes payable, net of discounts	-	2,857,669	95,404	261,213
Unsecured (as amended) note payable due to our Company's former Chief Executive Officer, interest accrues at the rate of 9% compounded annually, all amounts due and payable December 31, 2008. Currently past due.	20,000	20,000	15,310	13,775
Note payable due to a trust, interest accrues at the rate of 10% per annum, all amounts due and payable December 31, 2006. The Company is negotiating the terms of this note.	-	51,984	-	24,297
Digimark, LLC subordinated promissory note, net, as discussed above.	-	100,000	-	22,083
Notes payable	<u>20,000</u>	<u>171,984</u>	<u>15,310</u>	<u>60,155</u>
Totals	<u>\$ 20,000</u>	<u>\$ 3,029,653</u>	<u>\$ 110,714</u>	<u>\$ 321,368</u>

Interest Expense

The following table summarizes interest expense for the three months ended June 30, 2013 and 2012, and the six months ended June 30, 2013 and 2012:

	<u>Three months ended June30,</u>		<u>Six months ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Amortization of note discounts	\$ 4,799,638	\$ 743,400	\$ 6,134,367	\$ 1,020,749
Amortization of deferred financing costs	-	65,703	-	100,857
Other interest expense	99,555	71,218	212,186	116,893
	<u>\$ 4,899,193</u>	<u>\$ 880,321</u>	<u>\$ 6,346,553</u>	<u>\$ 1,238,499</u>

The Company paid interest in cash during the three months ended June 30, 2013 and 2012 totaling \$49,429 and \$28,273, respectively.

The Company paid interest in cash during the six months ended June 30, 2013 and 2012 totaling \$53,389 and \$33,108, respectively.

7. Stockholders' Equity (Deficit)**Common Stock**

In May 2013, the Company issued 750,000 shares of common stock valued based on the closing market price on the acquisition date at \$183,750 as part of the purchase price in the Sequence acquisition, see Note 3.

In May 2013, the Company issued 7,000,000 shares of common stock valued based on the closing market price on the acquisition date at \$1,034,310 as part of the purchase price in the FDI acquisition, see Note 3.

In June 2013, the Company issued 1,483,669 shares of common stock in satisfaction of the Boomtext earn-out payment. See Equity Payable below.

In June 2013, the Company issued 36,780,000 shares of common stock at \$0.20 per share to accredited investors for net proceeds of \$6,789,686. Transaction costs netted against the proceeds totaled \$566,315. This transaction constituted a qualified financing, pursuant to which the Bridge Notes were converted into shares of common stock as noted below.

In June 2013, the Company issued 26,772,532 shares of common stock for the conversion of notes payable and accrued interest, see Note 6.

In June 2013, the Company issued 75,000 shares for services and recorded expense of \$18,375 in general and administrative expenses.

At June 30, 2013, the Company had 96,079,318 shares of common stock outstanding.

Equity Payable

The Company had an earn-out commitment associated with the acquisition of Boomtext from Digimark, LLC. The earn-out payment (payable March 31, 2013) consists of a number of shares of common stock of the Company equal to (a) 1.5, multiplied by the Company's net revenue from acquired customers and customer prospects for the twelve-month period beginning six months after the closing date, divided by (b) the average of the volume-weighted average trading prices of the Company's common stock for the 25 trading days immediately preceding the earn-out payment (subject to a collar of \$1.49 and \$2.01 per share).

In June 2013, the final value of the earn-out payment of \$2,210,667 was satisfied through the issuance of 1,483,669 shares of common stock. As of December 31, 2012, the estimated value of the earn-out payment of \$2,032,881 was recorded as a current liability.

The change in the estimated value of the earn-out payable for the three months ended June 30, 2013 and 2012 was a loss of \$499,177 and a gain of \$16,131, respectively, which are recorded in other income/(expense) in the consolidated statements of operations.

The change in the estimated value of the earn-out payable for the three months ended June 30, 2013 and 2012 was a loss of \$193,465 and a gain of \$76,782, respectively, which are recorded in other income/(expense) in the consolidated statements of operations.

Stock-based Compensation

2010 Incentive Stock Option Plan

In December, 2010, the Company adopted the 2010 Incentive Stock Option Plan (“the 2010 Plan”), subject to shareholder approval within one year. Shareholder approval was not obtained within one year, therefore incentive stock options granted under the 2010 Plan converted to non-qualified stock options. The 2010 Plan permits the Company to grant up to 3,124,000 shares of common stock and options to purchase shares of common stock. The 2010 Plan is designed to retain directors, executives and selected employees and consultants and reward them for making major contributions to the success of the Company. These objectives are accomplished by making long-term incentive awards under the 2010 Plan thereby providing participants with a personal interest in the growth and performance of the Company.

The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price that equals the fair market value of the Company’s stock at the date of grant. These option awards generally vest based on four years of continuous service and have five-year or 10-year contractual terms.

2013 Incentive Stock Option Plan

In June 2013, the Company adopted the 2013 Incentive Stock Option Plan (“the 2013 Plan”). The 2013 Plan permits the Company to grant up to 33,386,086 shares of common stock and options to purchase shares of common stock. The 2013 Plan is designed to retain directors, executives and selected employees and consultants and reward them for making major contributions to the success of the Company. These objectives are accomplished by making long-term incentive awards under the 2010 Plan thereby providing participants with a personal interest in the growth and performance of the Company.

The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price that equals the fair market value of the Company’s stock at the date of grant. These option awards generally vest based on four years of continuous service and have five-year or 10-year contractual terms.

The exercise of options granted under the 2013 Plan is subject to the Company’s increase of the number of shares of common stock authorized for issuance.

Summary of Options and Related Expense

The following table summarizes stock option activity for the six months ended June 30, 2013:

	Number Outstanding	Weighted - Average Exercise Price Per Share	Weighted - Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	1,955,000	\$ 0.77	4.44	\$ -
Granted	30,387,825	\$ 0.31	9.86	
Exercised	-	\$ -	-	
Canceled/forfeited/expired	(240,001)	\$ 0.74	6.39	
Outstanding at June 30, 2013	<u>32,102,824</u>	\$ 0.33	9.55	\$ 3,237,902
Options vested and exercisable at June 30, 2013	<u>4,467,511</u>	\$ 0.40	8.49	\$ 423,433
Unrecognized expense at June 30, 2013	<u>\$ 6,222,535</u>			

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The weighted average exercise price of stock options granted during the period was \$0.31 and the related weighted average grant date fair value was \$0.27 per share.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing price at fiscal year-end and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the date indicated.

The following table summarizes information concerning options outstanding at June 30, 2013:

Awards Breakdown by Range as at June 30, 2013						
Exercise Price	Outstanding			Vested		
	Outstanding Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Outstanding Exercise Price	Vested Stock Options	Weighted Average Remaining Vested Contractual Life	Weighted Average Vested Stock Price
\$ 0.25 to \$0.69	31,607,824	9.61	\$ 0.31	4,173,973	8.64	\$ 0.31
\$ 1.16 to \$1.75	495,000	6.09	\$ 1.65	293,538	6.43	\$ 1.68

The following table summarizes information concerning options outstanding at December 31, 2012:

Awards Breakdown by Range as at December 31, 2012						
Exercise Price	Outstanding			Vested		
	Outstanding Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Outstanding Exercise Price	Vested Stock Options	Weighted Average Remaining Vested Contractual Life	Weighted Average Vested Stock Price
\$ 0.32 to \$0.69	1,410,000	3.71	\$ 0.43	374,997	2.98	\$ 0.32
\$ 1.16 to \$1.80	545,000	6.33	\$ 1.66	181,455	6.30	\$ 1.69

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees and directors based upon estimated fair values.

The Company recorded employee stock based compensation for the three months ended June 30, 2013 and 2012 of \$1,184,045 and \$95,568, respectively.

The Company recorded employee stock based compensation for the six months ended June 30, 2013 and 2012 of \$1,277,794 and \$210,429, respectively.

The Company expects to recognize \$6,222,535 of stock based compensation to employees and directors over the next twelve months.

Valuation Assumptions

The Company calculated the fair value of each stock option award on the date of grant using the Black-Scholes option pricing model. The following ranges of assumptions were used for the six months ended June 30, 2013 and 2012.

	Six months ended June 30,	
	2013	2012
Expected volatility	122% - 132%	65% to 73.4%
Risk-free interest rate	0.22% to 1.50%	0.39% to 0.51%
Forfeiture rate	16.0%	0.0%
Expected dividend rate	0.0%	0.0%
Expected life(years)	1.50 to 6.02	3.00 to 4.00

The expected volatility in 2013 is based on the historical publicly traded price of the Company's common stock. The expected volatility prior to 2013 is based on the weighted average of the historical volatility of publicly traded surrogates in the Company's peer group.

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

The dividend yield assumption is based on the Company's history of not paying dividends and no future expectations of dividend payouts.

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

Warrants issued to non-employees

In December 2010, the Company issued 700,000 warrants for consulting services. The warrants vest over a 4 year term and vest as follows: the first installment equaling 25% of the grant is exercisable on the first anniversary of the date of the warrant; and additional installments are exercisable monthly at the rate of 1/36 of the 75% grant balance over the ensuing 36 months.

In January 2011, the Company issued 200,000 warrants for consulting services. The warrants vest over a 4 year term and vest as follows: the first installment equaling 25% of the grant is exercisable on the first anniversary of the date of the warrant; and additional installments shall become exercisable monthly at the rate of 1/36 of the 75% grant balance over the ensuing 36 months.

In July 2011, the Company issued 5,000 warrants for consulting services. The warrants vest over a 4 year term and vest as follows: the first installment equaling 25% of the grant is exercisable on the first anniversary of the date of the warrant; and additional installments are exercisable monthly at the rate of 1/36 of the 75% grant balance over the ensuing 36 months.

In February 2012, the Company issued 25,000 warrants for consulting services. The warrants vest over twelve months beginning on the first monthly anniversary of the grant. The Company terminated the services of said consultant during the year ended December 31, 2012 and the warrants were canceled in accordance with the warrant agreement.

As of June 30, 2013, vested warrants totaled 736,138 pursuant to the three non-employee warrant agreements.

The warrants issued to non-employees were accounted for as derivative liabilities through June 17, 2013 pursuant to the authoritative guidance for equity based payments to non-employees. The warrants were valued using a Monte Carlo Simulation. See Note 5 for assumptions used in the Monte Carlo simulation.

The fair values of the warrants were estimated at the vesting date and are revalued at each subsequent reporting date. At December 31, 2012, the Company recorded derivative liabilities for the non-employee warrants totaling \$95,041. On June 17, 2013, the Company converted this derivative liability valued at \$176,555 into additional paid-in capital due to the fact that on that date the number of possible issuances of common shares was no longer indeterminate thereby removing the tainted equity environment.

The change in fair value of the derivative liabilities for the three months ended June 30, 2013 and 2012 was a loss of \$33,835 and a gain of \$129,987, respectively, which was recorded in change in fair value of derivative liabilities in the consolidated statements of operations. The increase in value of the derivative liabilities related to warrant vesting during the three months ended June 30, 2013 and 2012 was \$14,388 and \$33,883, respectively.

The change in fair value of the derivative liabilities for the six months ended June 30, 2013 and 2012 was a loss of \$54,545 and \$190,957, respectively, which was recorded in change in fair value of derivative liabilities in the consolidated statements of operations. The increase in value of derivative liabilities related to warrant vesting during the six months ended June 30, 2013 and 2012 was \$29,969 and \$33,883, respectively.

A summary of non-employee warrant activity under the 2010 Plan from December 31, 2012 to June 30, 2013 is presented below:

	Number Outstanding	Weighted - Average Exercise Price Per Share	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	905,000	\$ 0.33	4.10	\$ -
Granted	-	\$ -	-	-
Exercised	-	\$ -	-	-
Canceled/forfeited/expired	-	\$ -	-	-
Outstanding at June 30, 2013	<u>905,000</u>	\$ 0.33	3.60	\$ 81,000
Warrants vested and exercisable at June 30, 2013	<u>736,138</u>	\$ 0.33	3.32	\$ 65,999

The following table summarizes information concerning warrants outstanding at June 30, 2013:

Awards Breakdown by Range as at June 30, 2013

Exercise Price	Outstanding			Vested		
	Outstanding Warrants	Weighted Average Remaining Contractual Life	Weighted Average Outstanding Exercise Price	Vested Warrants	Weighted Average Remaining Vested Contractual Life	Weighted Average Vested Stock Price
\$ 0.32	900,000	3.61	\$ 0.32	733,326	3.32	\$ 0.32
\$ 1.75	5,000	3.02	\$ 1.75	2,812	3.02	\$ 1.75

The following table summarizes information concerning warrants outstanding at December 31, 2012:

Exercise Price	Outstanding			Vested		
	Outstanding Warrants	Weighted Average Remaining Contractual Life	Weighted Average Outstanding Exercise Price	Vested Warrants	Weighted Average Remaining Vested Contractual Life	Weighted Average Vested Stock Price
\$ 0.32	900,000	4.10	\$ 0.32	620,827	3.76	\$ 0.32
\$ 1.75	5,000	3.52	\$ 1.75	2,187	3.52	\$ 1.75

Warrants issued to note holders and placement agent

During the year ended December 31, 2011, the Company issued warrants for the purchase of 688,669 shares of common stock at \$2.00 per share in connection with its private placement discussed above under Common Stock. The warrants are exercisable for four years from the date of issuance, and contain anti-dilution, or down round, price protection as long as the warrant remains outstanding. In addition, the Company issued warrants for the purchase of 153,515 shares of common stock at \$2.00 per share in connection with the conversion of its outstanding Bridge Notes with a principal amount of \$210,000 discussed above in Note 5 under Bridge Financing. The warrants are exercisable for four years from the date of issuance. In October 2012, the exercise price of the warrants was reduced from \$2.00 per share to \$0.50 per share as a result of the price protection guarantee contained in the warrant agreement. In June 2013, the exercise price of the warrants was reduced from \$0.50 per share to \$0.20 per share as a result of the price protection guarantee contained in the warrant agreement.

In June 2013, the Company issued warrants for the purchase of 27,249,550 shares of common stock at \$0.20 per share in connection with the conversion of the Bridge Notes into equity. The warrants are exercisable for five years from the date of issuance.

In June 2013, the Company issued warrants for the purchase of 3,602,558 shares of common stock at \$0.20 to the placement agent connected with the Bridge Note conversions and equity placements. The warrants are exercisable for five years from the date of issuance.

8. Income Taxes

The Company maintains deferred tax assets that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These deferred tax assets include net operating loss carryforwards, deferred revenue and stock-based compensation. In assessing the potential realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers projected future taxable income and planning strategies in making this assessment. Based on the level of historical operating results and projections for the taxable income for the future, the Company has determined that it is more likely than not that the deferred tax assets will not be realized. Accordingly, the Company has recorded a valuation allowance to reduce deferred tax assets to zero. There can be no assurance that the Company will ever be able to realize the benefit of some or all of the federal and state loss carryforwards, either due to ongoing operating losses or due to ownership changes, which limit the usefulness of the loss carryforwards.

The Company has determined that during 2010 it experienced a “change of ownership” as defined by Section 382 of the Internal Revenue Code. As such, utilization of net operating loss carryforwards and credits generated before the 2010 change in ownership will be limited to approximately \$207,000 per year until such carryforwards are fully utilized. The pre change net operating loss carryforward was approximately \$7,000,000.

9. Fair Value Measurements

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

At December 31, 2012 and June 30, 2013, the Company re-measured the derivative liability related to the common stock and warrants issued in 2011 (See Note 7 under Common Stock).

On May 13, 2013, the Company also recorded an earn-out payable related to the Sequence acquisition, see Note 3.

At December 31, 2012, the Company recorded a derivative liability related to the VMCO and the ASID in connection with its Bridge Notes (See Note 6), the common stock and warrants issued in 2011 (See Note 7 under Common Stock), and the non-employee warrants at the aggregate fair value of \$3,074,504 utilizing unobservable inputs.

The change in fair value of these liabilities is included in other income (expense) in the consolidated statements of operations. The assumptions used in the Monte-Carlo simulation used to value the derivative liabilities involve expected volatility in the Company's common stock, estimated probabilities related to the occurrence of a future financing, and interest rates. As all the assumptions employed to measure this liability are based on management's judgment using internal and external data, this fair value determination is classified in Level 3 of the valuation hierarchy.

See Note 5 for a table that provides a reconciliation of the derivative liabilities from December 31, 2012 to June 30, 2013.

10. Commitments and Contingencies

Litigation

In September 2012, the Company initiated litigation against a former client (the "Defendant") for failure to pay the Company's invoices for services rendered under its Master License and Services Agreement. The complaint was filed in Superior Court of California, San Diego County. The litigation seeks to recover \$67,795 in services and interest penalties. As of June 30, 2013, negotiations to settle the litigation with the Defendant have ceased, and the Company is seeking to obtain a judgment against the Defendant.

Operating Lease and Lease Exit Obligation

The Company has a lease agreement for 6,730 square feet, as amended, for its office facilities in Chandler Arizona through December 2015. Monthly rental payments, excluding common area maintenance charges, are \$11,557 in 2013, \$11,958 in 2014 and \$12,357 in 2015.

The minimum lease payments required over the next five years is shown below.

	Minimum Lease Payments
2013	\$ 71,136
2014	143,492
2015	148,281
2016	-
2017	-
Thereafter	-
	<u>\$ 362,909</u>

The Company had a lease agreement for its office facilities in San Diego, California through September 2012. Upon signing a lease agreement for the facility in Chandler, the Company determined it no longer needed the San Diego facility. The property was vacated in November 2011 and returned to the owner. As of June 30, 2013, the Company has a Lease Exit Obligation which consists of unpaid rent totaling \$24,615 for the period December 2011 through September 2012. The Company expects no further charges in relation to this lease exit obligation, aside from actual common area maintenance charges reconciled against the estimate.

Rent expense for both the San Diego, California, and Chandler, Arizona facilities (including related common area maintenance charges and lease abandonment charges) was \$43,874 and \$43,329, respectively, for the three months ended June 30, 2013 and 2012. Rent expense for the six months ended June 30, 2013 and 2012 was \$86,669 and 92,617, respectively.

11. Employee Benefit Plan

The Company has an employee savings plan (the "Plan") pursuant to Section 401(k) of the Internal Revenue Code (the "Code"), covering all of its employees. Participants in the Plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code. The Company may make contributions at the discretion of its Board of Directors. During the six months ended June 30, 2013 and 2012, the Company made no contributions to the Plan.

12. Related Party Transactions

Prior to the reverse merger on November 2, 2010, Optimal Payments Corporation converted \$570,534 of debt into \$370,534 worth of Mobivity Inc. common stock and \$200,000 of prepaid services to be rendered by Mobivity. A member of the Company's Board of Directors is currently President of Sterling Card Solutions, which has a minority ownership position in Optimal Payments Corporation. The Company recognized deferred revenue from this related party during the three months ended June 30, 2013 and 2012 totaling \$-0- and \$51,000, respectively. The Company recognized deferred revenue from this related party during the six months ended June 30, 2013 and 2012 totaling \$-0- and \$84,000, respectively. Optimal Payments Corporation ceased being a related party in June 2013.

In April 2013, the Company issued a new Bridge Note to its Chief Financial Officer totaling \$20,000 that contains the same rights and privileges as the previously issued new Bridge Notes, the due date of which was extended to October 15, 2013. The note and accrued interest were converted into 189,812 shares of common stock and he received five-year warrants to purchase 189,812 shares of common stock exercisable at \$0.20 per share.

In May 2013, the Company issued a new Bridge Note to its Chief Executive Officer totaling \$17,500 that contains the same rights and privileges as the previously issued and amended new Bridge Notes. The note and accrued interest were converted into 88,243 shares of common stock and he received five-year warrants to purchase 88,243 shares of common stock exercisable at \$0.20 per share.

13. Subsequent Events

In August, the Company sold 720,000 shares of common stock and received net proceeds of \$137,428. The Company issued the placement agent five-year warrants to purchase 32,900 shares of common stock at \$0.20 per share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains "forward-looking statements" as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, in connection with the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. Such forward-looking statements include statements about our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made and are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," or "will," and similar expressions or variations. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those risks disclosed in this report, under the caption "Risk Factors" included in our 2012 annual report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 21, 2013 and in our subsequent filings with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Overview

We are in the business of developing and operating proprietary platforms over which brands and enterprises can conduct localized mobile marketing campaigns. Our proprietary platforms allow brands and enterprises to market their products and services to consumers through text messages sent directly to the consumers' mobile phones, mobile device applications (which consists of software available to both phones and tablet PCs). We generate revenue by charging the brands and enterprises a per-message transactional fee, or through fixed or variable software licensing fees. Our customers include national franchisers, professional sports teams and associations and other national brands such as the Los Angeles Clippers, Dallas Cowboys, Chick-Fil-A, Jamba Juice, and others.

Mobile phone users represent a large and captive audience. While televisions, radios, and even PCs are often shared by multiple consumers, mobile phones are personal devices representing a unique and individual address to the end user. We believe that the future of digital media will be significantly influenced by mobile phones where a direct, personal conversation can be had with the world's largest target audience. According to a report published by International Data Corporation (IDC), by 2015, more U.S. Internet users will access the Internet through mobile devices than through PCs or other wireline devices (Worldwide New Media Market Model 1H-2012 Highlights: Internet Becomes Ever More Mobile, Ever Less PC-Based (IDC #237459)). The IDC study further reports that the number of people accessing the Internet, in the U.S., through PCs will shrink from 240 million consumers in 2012 to 225 million in 2016. At the same time, the number of mobile users will increase from 174 million to 265 million. We believe the future of mobile applications and services includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life.

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Our “C4” Mobile Marketing and Customer Relationship Management (CRM) platform is a Web-hosted software solution enabling our clients to develop, execute, and manage a variety of marketing engagements to a consumer’s mobile phone. Our C4 solution allows our clients to communicate directly with their customers through Short Messaging Service (SMS), Multi-Media Messaging (MMS), and Interactive Voice Response (IVR) interactions, all of which are facilitated via a set of Graphical User Interfaces (GUIs) operated from any Web browser.

Our C4 platform also allows our customers to deploy and administer our “Stampt” mobile device loyalty application. Stampt is a smartphone replacement for “Buy 10, Get 1 free” punch cards. Consumers no longer need to worry about forgetting paperbased loyalty punch cards. Stampt makes it easy to receive all of the rewards consumers want from their favorite businesses. Consumer’s can use Stampt throughout the United States to earn free sandwiches, coffee, pizza, frozen yogurt, donuts, bagels and more.

Stampt’s nearby feature shows consumers all of the rewards they can earn at nearby businesses. From the Stampt mobile device application, consumers simply tap any business to learn more about that business and to see all of the loyalty points they have earned at that business. Consumers can keep track of all of the rewards they are close to earning through the “my cards” feature displayed in the application’s interface. Once a consumer has earned all of the Stampt’s they need for a reward, they simply show the cashier and click “tap to redeem” button from the application interface on their device. Our customers can create and manage any Stampt program from the C4 platform’s set of Web-based interfaces.

We also offer our clients reporting and analytics capabilities through the C4 solution which allows our clients to assess the effectiveness of their mobile marketing campaigns and design more effective campaigns. Our proprietary platform connects to all wireless carriers so that any consumer, on any wireless service (for example, Verizon), can join our customer’s mobile marketing campaign. Once the consumer has subscribed to our customer’s mobile marketing campaign, our C4 Web-based software solution serves as a tool by which our customers can initiate messages and other communications back to their subscribed consumers, as well as configure and administer their mobile marketing campaigns.

We believe that mobile devices are emerging as an important interactive channel for brands to reach consumers since it is the only media platform that has access to the consumer virtually anytime and anywhere. According to eMarketer’s article, published August 1st, 2013 (<http://www.emarketer.com/Article/Digital-Set-Surpass-TV-Time-Spent-with-US-Media/1010096>), U.S. adults now spend more time on their mobile device than any other digital channel such as PCs. eMarketer also reports that U.S. adults already spend more time on their mobile phone than viewing print or listening to radio combined. We believe that brands and advertising agencies are recognizing the unique benefits of the mobile channel and they are increasingly integrating mobile media within their overall advertising and marketing campaigns. Our objective is to become the industry leader in connecting brands and enterprises to consumers’ mobile phones.

Recent Events

Acquisitions

In May 2013, we acquired the assets of Sequence, LLC (“Sequence”) related to a mobile customer loyalty application. The acquired assets include all application software, URL’s, websites, trademarks, brands, customers and customer lists. We assumed no liabilities of Sequence.

The purchase price consisted of: (1) \$300,000 in cash which was paid prior to closing; (2) 750,000 shares of our common stock which were issued at closing valued at the closing price of the market on May 13, 2013, at \$183,750; and (3) twenty-four monthly earn-out payments consisting of 10% of the eligible monthly revenue subsequent to closing.

Also in May 2013, we acquired certain assets and liabilities of Front Door Insights, LLC (“FDI”), pursuant to an asset purchase agreement. The assets and liabilities acquired from FDI consisted of cash on hand, accounts receivable, all rights under all contracts other than excluded contracts, prepaid expenses, all technology and intellectual property rights, accounts payable, and obligations under a commercial lease.

The purchase price consisted of: (1) \$100,000 in cash; (2) a promissory note in the principal amount of \$1,400,000; and (3) 7,000,000 shares of our common stock valued at \$1,034,310.

Private Placement and Conversion of Bridge Notes

In June 2013, we sold 36,780,000 shares of our common stock at \$0.20 per share and received net proceeds of \$6,789,685. We also converted all of our outstanding Bridge Notes and substantially all of our interest payable on the Bridge Notes into 26,772,532 shares of our common stock at \$0.20 per share. As of June 30, 2013, we no longer have any Bridge Notes outstanding.

In August 2013 we completed the full amount authorized in the private placement of \$7,500,000 by selling the remaining 720,000 shares of our common stock at \$0.20 per share and received net proceeds of 137,428.

Results of Operations

Comparison of the Three Months Ended June 30, 2013 and 2012

Revenues

Revenues for the three months ended June 30, 2013 were \$1,085,610, an increase of \$76,212, or 7.6%, compared to the same period in 2012. The small net increase is primarily attributable to an increase of 45% in revenues from subscriber-based licensing. This increase was offset by the loss of several large-enterprise accounts that were not replaced with new sales in 2013, primarily due to increased focus on small businesses, and other minor factors.

Cost of Revenues

Cost of revenues for the three months ended June 30, 2013 was \$311,390, a decrease of \$21,162, or 6.4% compared to the same period in 2012. This decrease is primarily attributable to lower outsourced project consulting costs, messaging related fixed costs, and sales commission expenses. Messaging and related fixed costs have declined as we further assimilated the acquisitions of 2011, leveraged volume to obtain pricing discounts, reduced co-location IT related expenses, and consolidated vendors. Sales commission expenses during the quarter ended June 30, 2013 decreased 32% as compared to the same period in 2012, due primarily to fewer closed sales of corporate accounts and a smaller inside sales staff.

Gross Profit

Gross profit for the three months ended June 30, 2013 was \$774,220, an increase of \$97,374, or 14.4%, compared to the same period in 2012. Gross profit as a percentage of revenue for the three months ended June 30, 2013 increased to 71% compared to 67% for the same period in 2012. The increase is primarily attributable to reduced cost of sales resulting from further assimilation of the acquisitions of 2011, leveraged volume to obtain pricing discounts, reduction of fixed costs and consolidation of vendors.

General and Administrative

General and administrative expenses for the three months ended June 30, 2013 and 2012 were \$787,698 and \$796,946, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The decrease of \$9,248 is primarily attributable to the following changes: decrease in payroll related expenses of \$47,938 due to lower headcount; decrease in stock-based compensation of \$32,890 because we are at the end of the expense recognition period for many of our options granted prior to June 2013; increase in consulting expense of \$28,950 related to the lower headcount; decrease in bad debt expense of \$30,802 due to favorable collection efforts and the establishment of an adequate reserve in prior periods; decrease in investor relations expense of \$29,667 as we reduced expenditures in this category; increase in legal fees of \$88,903 which is related to our business activities during the period.

Sales and Marketing Expense

Sales and marketing expenses for the three months ended June 30, 2013 and 2012 were \$1,435,444 and \$381,868, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, sales travel, consulting costs and other expenses. The increase of \$1,053,576 is primarily attributable to the following changes: an increase in payroll related expenses of \$39,231 related to increased headcount; increase in stock-based compensation of \$968,887 related to the immediate vesting of grants to new officers during June 2013; and an increase in travel expenses of \$43,450 which is related to our business activities during the period.

Engineering, Research, and Development Expense

Engineering, research, and development expenses for the three months ended June 30, 2013 and 2012 were \$157,184 and \$135,760, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The increase of \$21,424 is primarily attributable to the following changes: decrease in payroll expense of \$32,918 due to lower headcount; and an increase in consulting expenses of \$32,410 which is also related to the lower headcount.

Depreciation and Amortization Expense

Depreciation and amortization expense for the three months ended June 30, 2013 and 2012 was \$58,315 and \$146,766, respectively. Such expenses consist of depreciation on our equipment and amortization of our intangible assets. The decrease of \$88,451 is primarily attributable to the lower amortizable base of our intangible assets throughout most of 2013 after the impairment write-offs that we recorded in 2012 and 2011.

Loss from Operations

Our loss from operations for the three months ended June 30, 2013 was \$1,664,421, an increase of \$880,021, or 112%, compared to the same period in 2012. The increase is a function of the increases and decreases discussed above.

Interest Expense

Interest expense for the three months ended June 30, 2013 and 2012 was \$4,899,193 and \$880,321, respectively. Interest expense consists of stated or implied interest expense on our notes payable, amortization of note discounts, and amortization of deferred financing costs.

Stated interest for the three months ended June 30, 2013 and 2012 was \$99,555 and \$71,218, respectively. The principal balance of our outstanding notes payable was higher in 2013 than in 2012, resulting in higher stated interest expense for the three months ended June 30, 2013.

Amortization of note discounts recorded as interest expense for the three months ended June 30, 2013 and 2012 was \$4,799,638 and \$743,400, respectively. We recorded additional note discounts in 2013 that were amortized to interest expense upon conversion of the Bridge Notes in June 2013.

Amortization of deferred financing costs for the three months ended June 30, 2013 and 2012 was \$-0- and \$65,703, respectively. We capitalized costs associated with the issuance of our notes, and amortize these costs over the term of the related notes.

Change in Fair Value of Derivative Liabilities

The change in fair value for derivative liabilities for the three months ended June 30, 2013 and 2012 was a loss of \$2,812,048 and a gain of \$654,477, respectively. The value of the derivative liabilities at any given date is based primarily on the value and volatility of our common stock, among other less significant factors. In periods when our stock price or volatility rises, we expect to record a loss in the change in fair value of the derivative liabilities. During the period ended June 30, 2013, the volatility assumptions input into the Monte Carlo models were updated with the Company's own stock (as two years of comparable data was now available), as compared to the use of guideline companies during previous periods, which increases the reliability of the underlying data in the models, but which also increased the value of the derivatives which in turn caused the increased losses in the current period. In addition, during the three months ending June 30, 2013, the conversion of the convertible notes payable into common shares significantly reduced the Company's ongoing exposure to share price movements as the tainted equity environment was relieved on June 17, 2013; thereby reducing the number of warrants subject to derivative liability treatment. See Note 5 for further information.

Adjustment in Contingent Consideration

The adjustment in contingent consideration for the three months ended June 30, 2013 and 2012 was a loss of \$499,177 and a gain of \$16,131, respectively. These adjustments represent a reduction or increase in the estimated earn-out payable on the BoomText acquisition at each period end.

Net Loss

The net losses for the three months ended June 30, 2013 and 2012 were \$9,874,821 and \$991,545, respectively. Factors affecting the change in net losses are discussed above.

Comparison of the Six Months Ended June 30, 2013 and 2012

Revenues

Revenues for the six months ended June 30, 2013 were \$2,133,603, an increase of \$90,999, or 4.5%, compared to the same period in 2012. The small net increase is primarily attributable to an increase of 47% in subscriber-based licensing. This increase was offset by the loss of several large-enterprise accounts that were not replaced with new sales in 2013, primarily due to increased focus on small businesses, and other minor factors.

Cost of Revenues

Cost of revenues for the six months ended June 30, 2013 was \$596,012, a decrease of \$104,216, or 14.9% compared to the same period in 2012. This decrease is primarily attributable to lower costs for messaging, messaging related fixed costs, and sales commission expenses. Messaging and related fixed costs have declined as we further assimilated the acquisitions of 2011, leveraged volume to obtain pricing discounts, reduced co-location IT expenses, and consolidated vendors. Sales commission expenses during the six months ended June 30, 2013 decreased 33% as compared to the same period in 2012, due primarily to fewer closed sales of corporate accounts and a smaller inside sales staff.

Gross Profit

Gross profit for the six months ended June 30, 2013 was \$1,517,591, an increase of \$195,215 or 14.8%, compared to the same period in 2012. Gross profit as a percentage of revenue for the six months ended June 30, 2013 increased to 72% compared to 65% for the same period in 2012. The increase is primarily attributable to reduced cost of sales resulting from further assimilation of the acquisitions of 2011, leveraged volume to obtain pricing discounts, reduction of fixed costs, and consolidation of vendors.

General and Administrative

General and administrative expenses for the six months ended June 30, 2013 and 2012 were \$1,320,323 and \$1,714,527, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The decrease of \$394,204 is primarily attributable to the following changes: decrease in payroll related expenses of \$109,033 due to lower headcount; decrease in stock-based compensation of \$299,597 because we are at the end of the expense recognition period for many of our options granted prior to June 2013; increase in consulting expense of \$56,943 related to the lower headcount; decrease in bad debt expense of \$89,957 due to favorable collection efforts and the establishment of an adequate reserve in prior periods; decrease in investor relations expense of \$47,980 as we reduced expenditures in this category; increase in legal fees of \$101,881 which is related to our business activities during the period.

Sales and Marketing Expense

Sales and marketing expenses for the six months ended June 30, 2013 and 2012 were \$1,798,341 and \$729,119, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, sales travel, consulting costs and other expenses. The increase of \$1,069,222 is primarily attributable to the following changes: an increase in payroll related expenses of \$32,753 related to increased headcount; increase in stock-based compensation of \$964,791 related to the immediate vesting of grants to new officers during June 2013; and an increase in travel expenses of \$43,503 which is related to our business activities during the period.

Engineering, Research, and Development Expense

Engineering, research, and development expenses for the six months ended June 30, 2013 and 2012 were \$251,239 and \$295,973, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The decrease of \$44,734 is primarily attributable to the following changes: decrease in payroll expense of \$66,204 due to lower headcount; and an increase in consulting expenses of \$23,061 which is also related to the lower headcount.

Depreciation and Amortization Expense

Depreciation and amortization expense for the six months ended June 30, 2013 and 2012 was \$92,129 and \$301,383, respectively. Such expenses consist of depreciation on our equipment and amortization of our intangible assets. The decrease of \$209,254 is primarily attributable to the lower amortizable base of our intangible assets throughout most of 2013 after the impairment write-offs that we recorded in 2012 and 2011.

Loss from Operations

Our loss from operations for the six months ended June 30, 2013 was \$1,944,441, a decrease of \$225,815, or 13%, compared to the same period in 2012. The decrease is a function of the increases and decreases discussed above.

Interest Expense

Interest expense for the six months ended June 30, 2013 and 2012 was \$6,346,553 and \$1,238,499, respectively. Interest expense consists of stated or implied interest expense on our notes payable, amortization of note discounts, and amortization of deferred financing costs.

Stated interest for the six months ended June 30, 2013 and 2012 was \$212,186 and \$116,893, respectively. The principal balance of our outstanding notes payable was higher in 2013 than in 2012, resulting in higher stated interest expense for the six months ended June 30, 2013.

Amortization of note discounts recorded as interest expense for the six months ended June 30, 2013 and 2012 was \$6,134,367 and \$1,020,749, respectively. We recorded additional note discounts in 2013 that were amortized to interest expense upon conversion of the Bridge Notes in June 2013.

Amortization of deferred financing costs for the six months ended June 30, 2013 and 2012 was \$0- and \$100,857, respectively. We capitalized costs associated with the issuance of our notes, and amortize these costs over the term of the related notes.

Change in Fair Value of Derivative Liabilities

The change in fair value for derivative liabilities for the six months ended June 30, 2013 and 2012 was a loss of \$3,813,598 and a gain of \$193,990, respectively. The value of the derivative liabilities at any given date is based primarily on the value and volatility of our common stock, among other less significant factors. In periods when our stock price or volatility rises, we expect to record a loss in the change in fair value of the derivative liabilities. During the period ended June 30, 2013, the volatility assumptions input into the Monte Carlo models were updated with the Company's own stock (as two years of comparable data was now available), as compared to the use of guideline companies during previous periods, which increases the reliability of the underlying data in the models, but which also increased the value of the derivatives which in turn caused the increased losses in the current period. In addition, during the six months ending June 30, 2013, the conversion of the convertible notes payable into common shares significantly reduced the Company's ongoing exposure to share price movements as the tainted equity environment was relieved on June 17, 2013; thereby reducing the number of warrants subject to derivative liability treatment. See Note 5 for further information.

Adjustment in Contingent Consideration

The adjustment in contingent consideration for the six months ended June 30, 2013 and 2012 was a loss of \$193,465 and a gain of \$76,782, respectively. These adjustments represent a reduction or increase in the estimated earn-out payable on the BoomText acquisition at each period end.

Net Loss

The net losses for the six months ended June 30, 2013 and 2012 were \$12,298,036 and \$2,683,785, respectively. Factors affecting the change in net losses are discussed above.

Liquidity and Capital Resources

As of June 30, 2013, we had current assets of \$5,373,122, including \$4,998,148 in cash, and current liabilities of \$1,720,322, resulting in working capital of \$3,652,800.

As of the date of this report, we believe we have working capital on hand to fund our current level of operations through, at least, the next 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 additional working capital through the sale of our securities and, if available, bank lines of credit. However, there can be no assurance we will be able to obtain access to capital as and when needed and, if so, the terms of any available financing may not be subject to commercially reasonable terms.

Cash Flows from Operating Activities

Our operating activities resulted in net cash used in operations of \$479,419 for the six months ended June 30, 2013 compared to net cash used by operations of \$1,225,514 for the same period in 2012.

The net cash used in operating activities for the six months ended June 30, 2013 reflects a net loss of \$12,298,036 offset by a reversal of bad debt expense of \$10,778, common stock issued for services of \$18,375, stock-based compensation of \$1,277,794, depreciation and amortization expense of \$92,129, gain on adjustment in contingent consideration of \$193,465, change (loss) in fair value of derivative liabilities of \$3,813,598, and amortization of note discounts of \$6,134,367. For the six months ended June 30, 2013, the net benefit of the non-cash items totaled \$14,372,148.

Increases and decreases in cash resulting from changes in operating assets and liabilities for the six months ended June 30, 2013 included an increase from accounts receivable of \$147,184, an decrease from accounts payable of \$84,388, an increase from accrued interest of \$159,132, an increase from other liabilities of \$119,061, and other minor factors.

The net cash used in operating activities for the six months ended June 30, 2012 reflects a net loss of \$2,683,785 offset by bad debt expense of \$79,179, common stock issued for services of \$270,000, common stock issued for late payment of \$160,468, stock-based compensation of \$210,429, depreciation and amortization expense of \$301,382, gain on adjustment of contingent consideration of \$76,782, change (gain) in fair value of derivative liabilities of \$193,990, amortization of deferred financing costs of \$100,857, and amortization of note discounts of \$1,020,749. For the six months ended June 30, 2012, the net benefit of the non-cash items totaled \$1,872,292.

Increases and decreases in cash resulting from changes in operating assets and liabilities for the six months ended June 30, 2012 included a decrease from accounts receivable of \$110,239, decrease from other current assets of \$540,553, a decrease from accounts payable of \$189,617, a decrease from deferred revenue and customer deposits of \$86,611, an increase from other liabilities of \$454,123, and other minor factors.

Cash Flows from Investing Activities

Cash flows from investing activities for the six ended June 30, 2013 consist of equipment purchases of \$2,799 and the cash portion of the purchase prices of the acquisitions during the period of \$400,000.

Cash flows from investing activities for the six months ended June 30, 2012 consist of equipment purchases of \$9,732.

Cash Flows from Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2013 and 2012 was \$5,880,003 and \$2,288,423, respectively.

During the six months ended June 30, 2013, we received proceeds of \$700,000 from the issuance of our Bridge Notes, and we received \$6,789,685 of net proceeds from the sale of shares of our common stock. We paid \$1,609,682 on our notes payable that were outstanding during the period.

During the six months ended June 30, 2012, we received proceeds of \$3,148,470 from the issuance of our Bridge Notes. We paid \$772,457 on our notes payable that were outstanding during the period, and we paid \$87,500 on the cash payment obligation resulting from the Txtstation acquisition.

Non Cash Financing Activities

During the six months ended June 30, 2013, non-cash investing and financing activities totaled \$26,434,087 and consisted of \$4,614,714 of discounts recorded on our notes payable, \$40,511 in adjustments to our derivative liabilities due to note repayments, \$10,726,967 in adjustments to our derivative liabilities due to note conversions, \$349,694 in adjustments to our derivative liabilities due to conversion of the allonge and ASID derivative liabilities into equity payable, \$176,555 for the conversion of the non-employee warrant derivative liability into additional paid-in capital, \$2,210,667 for the issuance of shares of common stock for the Boomtext earn-out, \$1,218,060 for the shares of common stock issued in our acquisitions, \$1,365,096 for the note payable issued in the FDI acquisition, \$224,000 for the earn-out payable recorded in the Sequence acquisition, \$4,984,720 for the conversion of Bridge Notes into common stock, \$369,786 for the conversion of accrued interest on the Bridge Notes into common stock, and \$153,317 for the settlement of a working capital asset related to the Boomtext acquisition.

During the six months ended June 30, 2012, non-cash investing and financing activities totaled \$4,073,566 and consisted of \$2,733,412 of discounts recorded on our notes payable, \$181,646 in adjustments to our derivative liabilities due to note repayments, \$1,020,859 in adjustments to our derivative liabilities due to note conversions, and \$137,649 of accrued interest that was converted into notes payable.

Critical Accounting Policies and Estimates

Refer to Note 2, "Summary of Significant Accounting Policies," in the accompanying notes to the condensed consolidated financial statements for a discussion of recent accounting pronouncements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our management, including our chief executive officer and chief financial officer, concluded that as of June 30, 2013 our disclosure controls and procedures were not effective due to existing material weaknesses in our internal control over financial reporting, as described below.

In connection with our evaluation of our internal control over financial reporting as of December 31, 2012, and included in our annual report on Form 10-K filed with the SEC on March 21, 2013, we determined that there were control deficiencies that constituted material weaknesses which are indicative of many small companies with small staff, including:

- (1) Inadequate segregation of duties and effective risk assessment;
- (2) Insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both generally accepted accounting principles in the United States and guidelines of the SEC; and
- (3) Inadequate closing processes to ensure all material misstatements are corrected in the financial statements, as evidenced by the fact that there were audit adjustments and restatements of our financial statements.

Changes in Internal Control

There were no changes in our internal control over financial reporting during the three months ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2017, we sold 36,780,000 shares of our common stock at \$0.20 per share and received net proceeds of \$6,789,685. We also converted all of our outstanding Bridge Notes and substantially all of our interest payable on the Bridge Notes into 26,772,532 shares of our common stock at \$0.20 per share. The bridge note holders also received warrants to purchase 27,249,549 shares of our common stock. The shares and the warrants were issued pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder. Emerging Growth Equities, Ltd. ("EGE") acted as placement agent for the private placement and received \$486,720 in commissions from us. In addition, for its services as placement agent, we issued to EGE Warrants to purchase an aggregate of 3,602,558 shares of our common stock, exercisable for a period of five years from the closing date, at an exercise price of \$0.20 per share.

Item 6. Exhibits

Exhibit No.	Description	Method of Filing
3.1	Amendment No. 2 to the Bylaws of the Registrant effective as of May 20, 2013	Filed as Exhibit to Current Report on Form 8-K filed on dated May 24, 2013
4.1	Form of Common Stock Purchase Warrant issued pursuant to Securities Purchase Agreement dated June 17, 2013 and Convertible Secured Promissory Note Conversion Agreement dated June 17, 2013	Filed as to Current Report on Form 8-K filed on dated June 20, 2013
10.1	Form of Amendment to 10% Senior Secured Convertible Bridge Notes due October 15, 2013	Filed as Exhibit to Current Report on Form 8-K filed on dated May 10, 2013
10.2	Asset Purchase Agreement by and among the Registrant and Sequence LLC	Filed as Exhibit to Quarterly Report on Form 10-Q filed on May 15, 2013
10.3	Asset Purchase Agreement dated May 20, 2013 between the Registrant and Front Door Insights, LLC	Filed as to Current Report on Form 8-K filed on dated May 24, 2013
10.4	Promissory Note dated May 20, 2013 made by the Registrant in favor of Front Door Insights, LLC	Filed as to Current Report on Form 8-K filed on dated May 24, 2013
10.5	Employment Agreement dated May 20, 2013 between the Registrant and Michael K. Bynum*	Filed as to Current Report on Form 8-K filed on dated May 24, 2013
10.6	Employment Agreement dated May 20, 2013 between the Registrant and Tom Tolbert*	Filed as to Current Report on Form 8-K filed on dated May 24, 2013
10.7	Securities Purchase Agreement dated June 17, 2013 by and among the Registrant and the signatories thereto	Filed as to Current Report on Form 8-K filed on dated June 20, 2013
10.8	Convertible Secured Promissory Note Conversion Agreement dated June 17, 2013 by and among the Registrant and the signatories thereto	Filed as to Current Report on Form 8-K filed on dated June 20, 2013
10.9	Registration Rights Agreement dated June 17, 2013 by and among the Registrant and the signatories thereto	Filed as to Current Report on Form 8-K filed on dated June 20, 2013
10.10	Employment Agreement entered into June 21, 2013 by and between the Registrant and Geri Suster*	Filed as to Current Report on Form 8-K filed on dated June 26, 2013
10.11	2013 Stock Incentive Plan of the Registrant adopted July 18, 2013*	Filed electronically herewith
10.12	Employment Agreement dated July 22, 2013 between the Registrant and Jeff Hasen*	Filed as to Current Report on Form 8-K filed on dated August 1, 2013
31.1	Certification by Chief Executive Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002	Filed electronically herewith
31.2	Certification by Chief Financial Officer pursuant to Section 302 of Sarbanes Oxley Act of 2002	Filed electronically herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350	Filed electronically herewith
101.INS	XBRL Instance Document**	Filed electronically herewith
101.SCH	XBRL Taxonomy Schema Document**	Filed electronically herewith
101.CAL	XBRL Taxonomy Calculation Linkbase Document**	Filed electronically herewith
101.DEF	XBRL Taxonomy Definition Linkbase Document**	Filed electronically herewith
101.LAB	XBRL Taxonomy Label Linkbase Document**	Filed electronically herewith
101.PRE	XBRL Taxonomy Presentation Linkbase Document**	Filed electronically herewith

* Indicates management compensation, agreement, plan or arrangement

** In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized

Mobivity Holdings Corp.

Date: August 14, 2013

By:

/s/ Dennis Becker

Dennis Becker

Chief Executive Officer

(Principal Executive Officer)

Date: August 14, 2013

By:

/s/ Timothy Schatz

Timothy Schatz

Chief Financial Officer

(Principal Accounting Officer)

MOBIVITY HOLDINGS CORP.

2013 STOCK INCENTIVE PLAN

1. Purpose of Plan.

The purpose of the Mobivity Holdings Corp. 2013 Stock Incentive Plan (the "Plan") is to advance the interests of Mobivity Holdings Corp. (the "Company") and its stockholders by enabling the Company and its Subsidiaries to attract and retain qualified individuals through opportunities for equity participation in the Company, and to reward those individuals who contribute to the Company's achievement of its economic objectives.

2. Definitions.

The following terms will have the meanings set forth below, unless the context clearly otherwise requires:

2.1. "Board" means the Company's Board of Directors.

2.2. "Broker Exercise Notice" means a written notice pursuant to which a Participant, upon exercise of an Option, irrevocably instructs a broker or dealer to sell a sufficient number of shares or loan a sufficient amount of money to pay all or a portion of the exercise price of the Option and/or any related withholding tax obligations and remit such sums to the Company and directs the Company to deliver stock certificates to be issued upon such exercise directly to such broker or dealer or their nominee.

2.3. "Cause" means (i) dishonesty, fraud, misrepresentation, embezzlement or deliberate injury or attempted injury, in each case related to the Company or any Subsidiary, (ii) any unlawful or criminal activity of a serious nature, (iii) any intentional and deliberate breach of a duty or duties that, individually or in the aggregate, are material in relation to the Participant's overall duties, (iv) any material breach of any confidentiality or noncompete agreement entered into with the Company or any Subsidiary, or (v) with respect to a particular Participant, any other act or omission that constitutes "cause" as may be defined in any employment, consulting or similar agreement between such Participant and the Company or any Subsidiary.

2.4. "Change in Control" means an event described in Section 11.1 of the Plan.

2.5. "Code" means the Internal Revenue Code of 1986, as amended.

2.6. "Committee" means the group of individuals administering the Plan, as provided in Section 3 of the Plan.

2.7. "Common Stock" means the common stock of the Company, \$0.001 par value per share, or the number and kind of shares of stock or other securities into which such Common Stock may be changed in accordance with Section 4.3 of the Plan.

2.8. "Disability" means the disability of the Participant means the permanent and total disability of the Participant within the meaning of Section 22(e)(3) of the Code.

2.9. "Effective Date" means July 17, 2013, but no Incentive Stock Option shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

2.10. “Eligible Recipients” means all employees, officers and directors of the Company or any Subsidiary, and any person who has a relationship with the Company or any Subsidiary.

2.11. “Exchange Act” means the Securities Exchange Act of 1934, as amended.

2.12. “Fair Market Value” means, with respect to the Common Stock, as of any date: (i) the mean between the reported high and low sale prices of the Common Stock at the end of the regular trading session if the Common Stock is listed, admitted to unlisted trading privileges, or reported on any national securities exchange or on the NASDAQ Global Select or Global Market on such date (or, if no shares were traded on such day, as of the next preceding day on which there was such a trade); or (ii) if the Common Stock is not so listed, admitted to unlisted trading privileges, or reported on any national exchange or on the NASDAQ Global Select or Global Market, the closing bid price as of such date at the end of the regular trading session, as reported by the Nasdaq Capital Market, OTC Bulletin Board, The OTC Market, or other comparable service; or (iii) if the Common Stock is not so listed or reported, such price as the Committee determines in good faith in the exercise of its reasonable discretion.

2.13. “Incentive Award” means an Option, Restricted Stock Award or Performance Stock Award granted to an Eligible Recipient pursuant to the Plan.

2.14. “Incentive Stock Option” means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that qualifies as an “incentive stock option” within the meaning of Section 422 of the Code.

2.15. “Non-Statutory Stock Option” means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that does not qualify as an Incentive Stock Option.

2.16. “Option” means an Incentive Stock Option or a Non-Statutory Stock Option.

2.17. “Participant” means an Eligible Recipient who receives one or more Incentive Awards under the Plan.

2.18. “Performance Criteria” means the performance criteria that may be used by the Committee in granting Performance Stock Awards contingent upon achievement of such performance goals as the Committee may determine in its sole discretion. The Committee may select one criterion or multiple criteria for measuring performance, and the measurement may be based upon Company, Subsidiary or business unit performance, or the individual performance of the Eligible Recipient, either absolute or by relative comparison to other companies, other Eligible Recipients or any other external measure of the selected criteria.

2.19. “Performance Stock Awards” means an award of Common Stock granted to an Eligible Recipient pursuant to Section 8 of the Plan and which may be subject to the future achievement of Performance Criteria or be free of any performance or vesting conditions.

2.20. “Previously Acquired Shares” means shares of Common Stock that are already owned by the Participant or, with respect to any Incentive Award, that are to be issued upon the grant, exercise or vesting of such Incentive Award.

2.21. “Restricted Stock Award” means an award of Common Stock granted to an Eligible Recipient pursuant to Section 7 of the Plan that is subject to the restrictions on transferability and the risk of forfeiture imposed by the provisions of such Section 7.

2.22. “Retirement” means normal or approved early termination of employment or service.

2.23. “Securities Act” means the Securities Act of 1933, as amended.

2.24. “Subsidiary” means any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

3. Plan Administration.

3.1. The Committee. The Plan will be administered by the Board or by a committee of the Board. So long as the Company has a class of its equity securities registered under Section 12 of the Exchange Act, any committee administering the Plan will consist solely of two or more members of the Board who are “non-employee directors” within the meaning of Rule 16b-3 under the Exchange Act. Such a committee, if established, will act by majority approval of the members (unanimous approval with respect to action by written consent), and a majority of the members of such a committee will constitute a quorum. As used in the Plan, “Committee” will refer to the Board or to such a committee, if established. To the extent consistent with applicable corporate law of the Company’s jurisdiction of incorporation, the Committee may delegate to any officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee may exercise such duties, power and authority with respect to Eligible Recipients who are subject to Section 16 of the Exchange Act. The Committee may exercise its duties, power and authority under the Plan in its sole and absolute discretion without the consent of any Participant or other party, unless the Plan specifically provides otherwise. Each determination, interpretation or other action made or taken by the Committee pursuant to the provisions of the Plan will be conclusive and binding for all purposes and on all persons, and no member of the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Incentive Award granted under the Plan.

3.2. Authority of the Committee.

(a) In accordance with and subject to the provisions of the Plan, the Committee will have the authority to determine all provisions of Incentive Awards as the Committee may deem necessary or desirable and as consistent with the terms of the Plan, including, without limitation, the following: (i) the Eligible Recipients to be selected as Participants; (ii) the nature and extent of the Incentive Awards to be made to each Participant (including the number of shares of Common Stock to be subject to each Incentive Award, any exercise price, the manner in which Incentive Awards will vest or become exercisable and whether Incentive Awards will be granted in tandem with other Incentive Awards) and the form of written agreement, if any, evidencing such Incentive Award; (iii) the time or times when Incentive Awards will be granted; (iv) the duration of each Incentive Award; and (v) the restrictions and other conditions to which the payment or vesting of Incentive Awards may be subject. In addition, the Committee will have the authority under the Plan in its sole discretion to pay the economic value of any Incentive Award in the form of cash, Common Stock or any combination of both.

(b) Subject to Section 3.2(d), below, the Committee will have the authority under the Plan to amend or modify the terms of any outstanding Incentive Award in any manner, including, without limitation, the authority to modify the number of shares or other terms and conditions of an Incentive Award, extend the term of an Incentive Award, accelerate the exercisability or vesting or otherwise terminate any restrictions relating to an Incentive Award, accept the surrender of any outstanding Incentive Award or, to the extent not previously exercised or vested, authorize the grant of new Incentive Awards in substitution for surrendered Incentive Awards; provided, however that the amended or modified terms are permitted by the Plan as then in effect and that any Participant adversely affected by such amended or modified terms has consented to such amendment or modification.

(c) In the event of (i) any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, extraordinary dividend or divestiture (including a spin-off) or any other change in corporate structure or shares; (ii) any purchase, acquisition, sale, disposition or write-down of a significant amount of assets or a significant business; (iii) any change in accounting principles or practices, tax laws or other such laws or provisions affecting reported results; or (iv) any other similar change, in each case with respect to the Company or any other entity whose performance is relevant to the grant or vesting of an Incentive Award, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) may, without the consent of any affected Participant, amend or modify the vesting criteria (including Performance Criteria) of any outstanding Incentive Award that is based in whole or in part on the financial performance of the Company (or any Subsidiary or division or other subunit thereof) or such other entity so as equitably to reflect such event, with the desired result that the criteria for evaluating such financial performance of the Company or such other entity will be substantially the same (in the sole discretion of the Committee or the board of directors of the surviving corporation) following such event as prior to such event; provided, however, that the amended or modified terms are permitted by the Plan as then in effect.

(d) Notwithstanding any other provision of this Plan other than Section 4.3, the Committee may not, without prior approval of the Company's stockholders, seek to effect any re-pricing of any previously granted, "underwater" Option by: (i) amending or modifying the terms of the Option to lower the exercise price; (ii) canceling the underwater Option and granting either (A) replacement Options having a lower exercise price; (B) Restricted Stock Awards; or (C) Performance Stock Awards in exchange; or (iii) repurchasing the underwater Options and granting new Incentive Awards under this Plan. For purposes of this Section 3.2(d) and Section 11.4, an Option will be deemed to be "underwater" at any time when the Fair Market Value of the Common Stock is less than the exercise price of the Option.

4. Shares Available for Issuance.

4.1. Maximum Number of Shares Available; Certain Restrictions on Awards. Subject to adjustment as provided in Section 4.3 of the Plan, the maximum number of shares of Common Stock that will be available for issuance under the Plan will be 33,386,086. The shares available for issuance under the Plan may, at the election of the Committee, be either treasury shares or shares authorized but unissued, and, if treasury shares are used, all references in the Plan to the issuance of shares will, for corporate law purposes, be deemed to mean the transfer of shares from treasury.

4.2. Accounting for Incentive Awards. Shares of Common Stock that are issued under the Plan or that are subject to outstanding Incentive Awards will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan; provided, however, that shares subject to an Incentive Award that lapses, expires, is forfeited (including issued shares forfeited under a Restricted Stock Award) or for any reason is terminated unexercised or unvested or is settled or paid in cash or any form other than shares of Common Stock will automatically again become available for issuance under the Plan. To the extent that the exercise price of any Option and/or associated tax withholding obligations are paid by tender or attestation as to ownership of Previously Acquired Shares, or to the extent that such tax withholding obligations are satisfied by withholding of shares otherwise issuable upon exercise of the Option, only the number of shares of Common Stock issued net of the number of shares tendered, attested to or withheld will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan.

4.3. Adjustments to Shares and Incentive Awards. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) available for issuance or payment under the Plan and, in order to prevent dilution or enlargement of the rights of Participants, the number and kind of securities or other property (including cash) subject to outstanding Incentive Awards and the exercise price of outstanding Options.

5. Participation.

Participants in the Plan will be those Eligible Recipients who, in the judgment of the Committee, have contributed, are contributing or are expected to contribute to the achievement of economic objectives of the Company or its Subsidiaries. Eligible Recipients may be granted from time to time one or more Incentive Awards, singly or in combination or in tandem with other Incentive Awards, as may be determined by the Committee in its sole discretion. Incentive Awards will be deemed to be granted as of the date specified in the grant resolution of the Committee, which date will be the date of any related agreement with the Participant.

6. Options.

6.1. Grant. An Eligible Recipient may be granted one or more Options under the Plan, and such Options will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may designate whether an Option is to be considered an Incentive Stock Option or a Non-Statutory Stock Option. To the extent that any Incentive Stock Option granted under the Plan ceases for any reason to qualify as an "incentive stock option" for purposes of Section 422 of the Code, such Incentive Stock Option will continue to be outstanding for purposes of the Plan but will thereafter be deemed to be a Non-Statutory Stock Option.

6.2. Exercise Price. The per share price to be paid by a Participant upon exercise of an Option will be determined by the Committee in its discretion at the time of the Option grant; provided, however, that such price will not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant with respect to any Incentive Stock Option (110% of the Fair Market Value with respect to an Incentive Stock Option if, at the time such Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company).

6.3. Exercisability and Duration. An Option will become exercisable at such times and in such installments and upon such terms and conditions as may be determined by the Committee in its sole discretion at the time of grant (including without limitation (i) the achievement of one or more of the Performance Criteria and/or (ii) that the Participant remain in the continuous employ or service of the Company or a Subsidiary for a certain period); provided, however, that if the Committee does not specify the expiration date of the Option, the expiration date shall be 10 years from the date on which the Option was granted. In no case may an Option may be exercisable after 10 years from its date of grant (five years from its date of grant in the case of an Incentive Stock Option if, at the time the Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company).

6.4. Payment of Exercise Price. The total purchase price of the shares to be purchased upon exercise of an Option will be paid entirely in cash (including check, bank draft or money order); provided, however, that the Committee, in its sole discretion and upon terms and conditions established by the Committee, may allow such payments to be made, in whole or in part, by tender of a Broker Exercise Notice, by tender, or attestation as to ownership, of Previously Acquired Shares that have been held for the period of time necessary to avoid a charge to the Company's earnings for financial reporting purposes and that are otherwise acceptable to the Committee, or by a combination of such methods. For purposes of such payment, Previously Acquired Shares tendered or covered by an attestation will be valued at their Fair Market Value on the exercise date.

6.5. Manner of Exercise. An Option may be exercised by a Participant in whole or in part from time to time, subject to the conditions contained in the Plan and in the agreement evidencing such Option, by delivery in person, by facsimile or electronic transmission or through the mail of written notice of exercise to the Company at its legal department and by paying in full the total exercise price for the shares of Common Stock to be purchased in accordance with Section 6.4 of the Plan.

7. Restricted Stock Awards.

7.1. Grant. An Eligible Recipient may be granted one or more Restricted Stock Awards under the Plan, and such Restricted Stock Awards will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Restricted Stock Awards as it deems appropriate, including, without limitation, (i) the achievement of one or more of the Performance Criteria and/or (ii) that the Participant remain in the continuous employ or service of the Company or a Subsidiary for a certain period.

7.2. Rights as a Stockholder: Transferability. Except as provided in Sections 7.1, 7.3, 7.4 and 12.3 of the Plan, a Participant will have all voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Participant as a Restricted Stock Award under this Section 7 upon the Participant becoming the holder of record of such shares as if such Participant were a holder of record of shares of unrestricted Common Stock.

7.3. Dividends and Distributions. Unless the Committee determines otherwise in its sole discretion (either in the agreement evidencing the Restricted Stock Award at the time of grant or at any time after the grant of the Restricted Stock Award), any dividends or distributions (other than regular quarterly cash dividends) paid with respect to shares of Common Stock subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions as the shares to which such dividends or distributions relate. The Committee will determine in its sole discretion whether any interest will be paid on such dividends or distributions.

7.4. Enforcement of Restrictions. To enforce the restrictions referred to in this Section 7, the Committee may place a legend on the stock certificates referring to such restrictions and may require the Participant, until the restrictions have lapsed, to keep the stock certificates, together with duly endorsed stock powers, in the custody of the Company or its transfer agent, or to maintain evidence of stock ownership, together with duly endorsed stock powers, in a certificateless book-entry stock account with the Company's transfer agent.

8. Performance Stock Awards.

8.1. An Eligible Recipient may be granted one or more Performance Stock Awards under the Plan, and the issuance of shares of Common Stock pursuant to such Performance Stock Awards will be subject to such terms and conditions, if any, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion, including, but not limited to, the achievement of one or more of the Performance Criteria.

8.2. Restrictions on Transfers. The right to receive shares of Performance Stock Awards on a deferred basis may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

9. Effect of Termination of Employment or Other Service.

9.1. Termination Due to Death or Disability. In the event a Participant's employment or other service with the Company and all Subsidiaries is terminated by reason of death or Disability:

(a) All outstanding Options then held by the Participant will, to the extent exercisable as of such termination, remain exercisable for a period of six (6) months after such termination (but in no event after the expiration date of any such Option); and

(b) All Restricted Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited; and

(c) All outstanding Performance Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited.

9.2. Termination Due to Retirement. Subject to Section 9.5 of the Plan, in the event a Participant's employment or other service with the Company and all Subsidiaries is terminated by reason of Retirement:

(a) All outstanding Options then held by the Participant will, to the extent exercisable as of such termination, remain exercisable in full for a period of three (3) months after such termination (but in no event after the expiration date of any such Option). Options not exercisable as of such Retirement will be forfeited and terminate; and

(b) All Restricted Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited; and

(c) All outstanding Performance Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited.

9.3. Termination for Reasons Other than Death, Disability or Retirement. Subject to Section 9.5 of the Plan, in the event a Participant's employment or other service is terminated with the Company and all Subsidiaries for any reason other than death, Disability or Retirement, or a Participant is in the employ of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Participant continues in the employ of the Company or another Subsidiary):

(a) All outstanding Options then held by the Participant will, to the extent exercisable as of such termination, remain exercisable in full for a period of three months after such termination (but in no event after the expiration date of any such Option). Options not exercisable as of such termination will be forfeited and terminate; and

(b) All Restricted Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited; and

(c) All outstanding Performance Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited.

9.4. Modification of Rights Upon Termination. Notwithstanding the other provisions of this Section 9, the Committee may, in its sole discretion (which may be exercised in connection with the grant or after the date of grant, including following such termination), determine that upon a Participant's termination of employment or other service with the Company and all Subsidiaries, any Options (or any part thereof) then held by such Participant may become or continue to become exercisable and/or remain exercisable following such termination of employment or service, and Restricted Stock Awards and Performance Stock Awards then held by such Participant may vest and/or continue to vest or become free of restrictions and conditions to issuance, as the case may be, following such termination of employment or service, in each case in the manner determined by the Committee.

9.5. Effects of Actions Constituting Cause. Notwithstanding anything in the Plan to the contrary, in the event that a Participant is determined by the Committee, acting in its sole discretion, to have committed any action which would constitute Cause as defined in Section 2.3, irrespective of whether such action or the Committee's determination occurs before or after termination of such Participant's employment or service with the Company or any Subsidiary, all rights of the Participant under the Plan and any agreements evidencing an Incentive Award then held by the Participant shall terminate and be forfeited without notice of any kind. The Company may defer the exercise of any Option or the vesting of any Restricted Stock Award for a period of up to ninety (90) days in order for the Committee to make any determination as to the existence of Cause.

9.6. Determination of Termination of Employment or Other Service. Unless the Committee otherwise determines in its sole discretion, a Participant's employment or other service will, for purposes of the Plan, be deemed to have terminated on the date recorded on the personnel or other records of the Company or the Subsidiary for which the Participant provides employment or service, as determined by the Committee in its sole discretion based upon such records.

10. Payment of Withholding Taxes.

10.1. General Rules. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or a Subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, foreign, state and local withholding and employment-related tax requirements attributable to an Incentive Award, including, without limitation, the grant, exercise or vesting of, or payment of dividends with respect to, an Incentive Award or a disqualifying disposition of stock received upon exercise of an Incentive Stock Option, or (b) require the Participant promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to an Incentive Award.

10.2. Special Rules. The Committee may, in its sole discretion and upon terms and conditions established by the Committee, permit or require a Participant to satisfy, in whole or in part, any withholding or employment-related tax obligation described in Section 10.1 of the Plan by electing to tender, or by attestation as to ownership of, Previously Acquired Shares that have been held for the period of time necessary to avoid a charge to the Company's earnings for financial reporting purposes and that are otherwise acceptable to the Committee, by delivery of a Broker Exercise Notice or a combination of such methods. For purposes of satisfying a Participant's withholding or employment-related tax obligation, Previously Acquired Shares tendered or covered by an attestation will be valued at their Fair Market Value.

11. Change in Control.

11.1. A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs has occurred:

(a) the sale, lease, exchange or other transfer, directly or indirectly, of substantially all of the assets of the Company (in one transaction or in a series of related transactions) to any Successor;

(b) the approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company;

(c) any Successor (as defined in Section 11.2 below), other than a Bona Fide Underwriter (as defined in Section 11.2 below), becomes after the effective date of the Plan the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of (i) 25% or more, but not 50% or more, of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the Continuity Directors (as defined in Section 11.2 below), or (ii) more than 50% of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Continuity Directors);

(d) a merger or consolidation to which the Company is a party if the stockholders of the Company immediately prior to effective date of such merger or consolidation have “beneficial ownership” (as defined in Rule 13d-3 under the Exchange Act), immediately following the effective date of such merger or consolidation, of securities of the surviving corporation representing (i) 50% or more, but not more than 80%, of the combined voting power of the surviving corporation’s then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the Continuity Directors, or (ii) less than 50% of the combined voting power of the surviving corporation’s then outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Continuity Directors); or

(e) the Continuity Directors cease for any reason to constitute at least 50% or more of the Board.

11.2. Change in Control Definitions. For purposes of this Section 11:

(a) “Continuity Directors” of the Company will mean any individuals who are members of the Board on the effective date of the Plan and any individual who subsequently becomes a member of the Board whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the Continuity Directors (either by specific vote or by approval of the Company’s proxy statement in which such individual is named as a nominee for director without objection to such nomination).

(b) “Bona Fide Underwriter” means an entity engaged in business as an underwriter of securities that acquires securities of the Company through such entity’s participation in good faith in a firm commitment underwriting until the expiration of 40 days after the date of such acquisition.

(c) “Successor” means any individual, corporation, partnership, group, association or other “person,” as such term is used in Section 13(d) or Section 14(d) of the Exchange Act, other than the Company, any “affiliate” (as defined below) or any benefit plan(s) sponsored by the Company or any affiliate that succeeds to, or has the practical ability to control (either immediately or solely with the passage of time), the Company’s business directly, by merger, consolidation or other form of business combination, or indirectly, by purchase of the Company’s outstanding securities ordinarily having the right to vote at the election of directors or all or substantially all of its assets or otherwise. For this purpose, an “affiliate” is (i) any corporation at least a majority of whose outstanding securities ordinarily having the right to vote at elections of directors is owned directly or indirectly by the Company; (ii) any other form of business entity in which the Company, by virtue of a direct or indirect ownership interest, has the right to elect a majority of the members of such entity’s governing body or (iii) any entity that at the time of the approval of this Plan owns in excess of 10% of the Company’s common stock and its affiliates.

11.3. Acceleration of Vesting. Without limiting the authority of the Committee under Sections 3.2 and 4.3 of the Plan, if a Change in Control of the Company occurs, then, if approved by the Committee in its sole discretion either in an agreement evidencing an Incentive Award at the time of grant or at any time after the grant of an Incentive Award: (a) all Options that have been outstanding for at least six months will become immediately exercisable in full and will remain exercisable in accordance with their terms; (b) all Restricted Stock Awards that have been outstanding for at least six months will become immediately fully vested and non-forfeitable; and (c) any conditions to the issuance of shares of Common Stock pursuant to Performance Stock Awards that have been outstanding for at least six months will lapse.

11.4. Cash Payment. If a Change in Control of the Company occurs, then the Committee, if approved by the Committee in its sole discretion either in an agreement evidencing an Incentive Award at the time of grant or at any time after the grant of an Incentive Award, and without the consent of any Participant affected thereby, may determine that:

(a) Some or all Participants holding outstanding Options will receive, with respect to some or all of the shares of Common Stock subject to such Options (“Option Shares”), either (i) as of the effective date of any such Change in Control, cash in an amount equal to the excess of the Fair Market Value of such Option Shares on the last business day prior to the effective date of such Change in Control over the exercise price per share of such Option Shares, (ii) immediately prior to such Change of Control, a number of shares of Common Stock having an aggregate Fair Market Value equal to the excess of the Fair Market Value of the Option Shares as of the last business day prior to the effective date of such Change in Control over the exercise price per share of such Option Shares; or (iii) any combination of cash or shares of Common Stock with the amount of each component to be determined by the Committee not inconsistent with the foregoing clauses (i) and (ii), as proportionally adjusted; and

(b) any Options which, as of the effective date of any such Change in Control, are “underwater” (as defined in Section 3.2(d)) shall terminate as of the effective date of any such Change in Control; and

(c) some or all Participants holding Performance Stock Awards will receive, with respect to some or all of the shares of Common Stock subject to such Performance Stock Awards that remain subject to issuance based upon the future achievement of Performance Criteria as of the effective date of any such Change in Control of the Company, cash in an amount equal the Fair Market Value of such shares immediately prior to the effective date of such Change in Control.

11.5. Limitation on Change in Control Payments. Notwithstanding anything in Section 11.3 or 11.4 of the Plan to the contrary, if, with respect to a Participant, the acceleration of the exercisability of an Option as provided in Section 11.3 or the payment of cash or shares of Common Stock in exchange for all or part of an Option as provided in Section 11.4 (which acceleration or payment could be deemed a “payment” within the meaning of Section 280G(b)(2) of the Code), together with any other “payments” that such Participant has the right to receive from the Company or any corporation that is a member of an “affiliated group” (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a “parachute payment” (as defined in Section 280G(b)(2) of the Code), then the “payments” to such Participant pursuant to Section 11.3 or 11.4 of the Plan will be reduced to the largest amount as will result in no portion of such “payments” being subject to the excise tax imposed by Section 4999 of the Code; provided, however, that if a Participant is subject to a separate agreement with the Company or a Subsidiary which specifically provides that payments attributable to one or more forms of employee stock incentives or to payments made in lieu of employee stock incentives will not reduce any other payments under such agreement, even if it would constitute an excess parachute payment, or provides that the Participant will have the discretion to determine which payments will be reduced in order to avoid an excess parachute payment, then the limitations of this Section 11.4 will, to that extent, not apply.

12. Rights of Eligible Recipients and Participants: Transferability.

12.1. Employment or Service. Nothing in the Plan will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of any Eligible Recipient or Participant at any time, nor confer upon any Eligible Recipient or Participant any right to continue in the employ or service of the Company or any Subsidiary.

12.2. Rights as a Stockholder. As a holder of Incentive Awards (other than Restricted Stock Awards), a Participant will have no rights as a stockholder unless and until such Incentive Awards are exercised for, or paid in the form of, shares of Common Stock and the Participant becomes the holder of record of such shares. Except as otherwise provided in the Plan, no adjustment will be made for dividends or distributions with respect to such Incentive Awards as to which there is a record date preceding the date the Participant becomes the holder of record of such shares, except as the Committee may determine in its discretion.

12.3. Restrictions on Transfer.

(a) Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by subsections (b) and (c) below, no right or interest of any Participant in an Incentive Award prior to the exercise (in the case of Options) or vesting (in the case of Restricted Stock Awards) of such Incentive Award will be assignable or transferable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise.

(b) A Participant will be entitled to designate a beneficiary to receive an Incentive Award upon such Participant's death, and in the event of such Participant's death, payment of any amounts due under the Plan will be made to, and exercise of any Options (to the extent permitted pursuant to Section 9 of the Plan) may be made by, such beneficiary. If a deceased Participant has failed to designate a beneficiary, or if a beneficiary designated by the Participant fails to survive the Participant, payment of any amounts due under the Plan will be made to, and exercise of any Options (to the extent permitted pursuant to Section 9 of the Plan) may be made by, the Participant's legal representatives, heirs and legatees. If a deceased Participant has designated a beneficiary and such beneficiary survives the Participant but dies before complete payment of all amounts due under the Plan or exercise of all exercisable Options, then such payments will be made to, and the exercise of such Options may be made by, the legal representatives, heirs and legatees of the beneficiary.

(c) Upon a Participant's request, the Committee may, in its sole discretion, permit a transfer of all or a portion of a Non-Statutory Stock Option, other than for value, to such Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, any person sharing such Participant's household (other than a tenant or employee), a trust in which any of the foregoing have more than fifty percent of the beneficial interests, a foundation in which any of the foregoing (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. Any permitted transferee will remain subject to all the terms and conditions applicable to the Participant prior to the transfer. A permitted transfer may be conditioned upon such requirements as the Committee may, in its sole discretion, determine, including, but not limited to execution and/or delivery of appropriate acknowledgements, opinion of counsel, or other documents by the transferee.

12.4. Non-Exclusivity of the Plan. Nothing contained in the Plan is intended to modify or rescind any previously approved compensation plans or programs of the Company or create any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

13. Securities Law and Other Restrictions.

Notwithstanding any other provision of the Plan or any agreements entered into pursuant to the Plan, the Company will not be required to issue any shares of Common Stock under this Plan, and a Participant may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to Incentive Awards granted under the Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act and any applicable securities laws of a state or foreign jurisdiction or an exemption from such registration under the Securities Act and applicable state or foreign securities laws, and (b) there has been obtained any other consent, approval or permit from any other U.S. or foreign regulatory body which the Committee, in its sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities law or other restrictions.

14. Plan Amendment, Modification and Termination.

The Board may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time to time in such respects as the Board may deem advisable in order that Incentive Awards under the Plan will conform to any change in applicable laws or regulations or in any other respect the Board may deem to be in the best interests of the Company; provided, however, that no such amendments to the Plan will be effective without approval of the Company's stockholders if: (i) stockholder approval of the amendment is then required pursuant to Section 422 of the Code or the rules of any stock exchange or the NASDAQ Global Select, Global or Capital Market or similar regulatory body; or (ii) such amendment seeks to modify Section 3.2(d) hereof. No termination, suspension or amendment of the Plan may adversely affect any outstanding Incentive Award without the consent of the affected Participant; provided, however, that this sentence will not impair the right of the Committee to take whatever action it deems appropriate under Sections 3.2(c), 4.3 and 11 of the Plan.

15. Effective Date and Duration of the Plan.

The Plan is effective as of the Effective Date. The Plan will terminate at midnight on July 17, 2023 and may be terminated prior to such time by Board action. No Incentive Award will be granted after termination of the Plan. Incentive Awards outstanding upon termination of the Plan may continue to be exercised, or become free of restrictions, according to their terms.

16. Miscellaneous.

16.1. Governing Law. Except to the extent expressly provided herein or in connection with other matters of corporate governance and authority (all of which shall be governed by the laws of the Company's jurisdiction of incorporation), the validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Nevada notwithstanding the conflicts of laws principles of any jurisdictions.

16.2. Successors and Assigns. The Plan will be binding upon and inure to the benefit of the successors and permitted assigns of

the Company and the Participants.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dennis Becker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mobivity Holdings Corp. for the quarter ended June 30, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2013

By: /s/ Dennis Becker
Dennis Becker
Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Timothy Schatz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mobivity Holdings Corp. for the quarter ended June 30, 2013;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2013

By: /s/ Timothy Schatz
Timothy Schatz

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Mobivity Holdings Corp., a Nevada corporation (the "Company"), for the period ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Dennis Becker, Chief Executive Officer of the Company, and Timothy Schatz, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 14, 2013

/s/ Dennis Becker
Dennis Becker
Chief Executive Officer
(Principal Executive Officer)

/s/ Timothy Schatz
Timothy Schatz
Chief Financial Officer

(Principal Financial and Accounting Officer)