MOBIVITY HOLDINGS CORP.
Form 10-Q
May 16, 2016

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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

For the transition period from ___________ to __________

Commission file number 000-53851

Mobivity Holdings Corp.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	26-3439095

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

55 N. Arizona Place, Suite 310

Chandler, Arizona 85225

(Address of Principal Executive Offices & Zip Code)

(877) 282-7660

(Registrant's Telephone Number)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

As of May 3, 2016, the registrant had 32,642,324 shares of common stock issued and outstanding.

MOBIVITY HOLDINGS CORP.

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Part I - Financial Information

Item 1. Financial Statements

Mobivity Holdings Corp.

Condensed Consolidated Balance Sheets

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current assets		
Cash	$ 2,053,013	$ 634,129
Accounts receivable, net of allowance for doubtful accounts of $240,973 and $237,383, respectively	791,221	700,356
Other current assets	188,965	131,345
Total current assets	3,033,199	1,465,830
Goodwill	3,058,307	1,921,072
Intangible assets, net	2,292,709	2,373,689
Other assets	193,201	173,022
TOTAL ASSETS	$ 8,577,416	$ 5,933,613
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 871,811	$ 375,363
Accrued and deferred personnel compensation	299,115	414,314
Deferred revenue and customer deposits	278,528	72,624
Notes payable	96,903	-
Other current liabilities	169,595	197,145
Total current liabilities	1,715,952	1,059,446
		-
Non-current liabilities		-
Notes payable	318,796	-
Total non-current liabilities	318,796	-
Total liabilities	2,034,748	1,059,446
Commitments and Contingencies (See Note 9)		
Stockholders' equity		
	32,642	28,788

Common stock, $0.001 par value; 50,000,000 shares authorized; 32,642,324 and 28,787,991, shares issued and outstanding		
Equity payable	350,862	100,862
Additional paid-in capital	72,670,382	69,903,527
Accumulated other comprehensive loss	(63,219)	-
Accumulated deficit	(66,447,999)	(65,159,010)
Total stockholders' equity	6,542,668	4,874,167
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,577,416	$ 5,933,613

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

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Mobivity Holdings Corp.

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

	Three Months Ended March 31, 2016	2015
Revenues		
Revenues	$ 1,845,240	$ 940,172
Cost of revenues	436,624	263,914
Gross margin	1,408,616	676,258
Operating expenses		
General and administrative	1,048,471	1,161,387
Sales and marketing	1,178,089	1,092,900
Engineering, research, and development	331,982	114,144
Depreciation and amortization	146,388	55,746
Total operating expenses	2,704,930	2,424,177
Loss from operations	(1,296,314)	(1,747,919)
Other income/(expense)		
Interest income	368	56
Interest expense	(7,593)	-
Change in fair value of derivative liabilities	-	18,325
Foreign currency gain/(loss)	14,550	-
Total other income/(expense)	7,325	18,381
Loss before income taxes	(1,288,989)	(1,729,538)
Income tax expense	-	-
Net loss	(1,288,989)	(1,729,538)
Other comprehensive loss, net of income tax		
Foreign currency translation adjustments	(63,219)	-
Comprehensive loss	$ (1,352,208)	$ (1,729,538)
Net loss per share - basic and diluted	$ (0.04)	$ (0.08)
Weighted average number of shares during the period - basic and diluted	29,778,439	23,022,420

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

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Mobivity Holdings Corp.

Consolidated Statement of Stockholders' Equity

	Common Stock		Equity	Additional	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Dollars	Payable	Paid-in Capital	Loss	Deficit	Equity
Balance, December 31, 2014	22,748,193	$ 22,748	$ 100,862	$ 62,565,974	$ -	$ (59,025,964)	$ 3,663,620
Issuance of common stock for financing, net of transaction costs of $234,500	4,805,000	4,805	-	4,565,695	-	-	4,570,500
Issuance of common stock for services	310,870	311	-	362,690	-	-	363,001
Issuance of common stock for earnout	903,928	904	-	749,356	-	-	750,260
Stock based compensation	20,000	20	-	1,659,812	-	-	1,659,832
Net loss	-	-	-	-	-	(6,133,046)	(6,133,046)
Balance, December 31, 2015	28,787,991	$ 28,788	$ 100,862	$ 69,903,527	$ -	$ (65,159,010)	$ 4,874,167
Issuance of common stock for acquisition	1,015,000	1,015	-	709,485	-	-	710,500
Issuance of common stock for financing	2,839,333	2,839	250,000	1,700,761	-	-	1,953,600
Stock based compensation	-	-	-	356,609	-	-	356,609
Foreign currency translation	-	-	-	-	(63,219)	-	(63,219)

adjustment							
Net loss	-	-	-	-	-	(1,288,989)	(1,288,989)
Balance, March 31, 2016	32,642,324	$ 32,642	$ 350,862	$ 72,670,382	$ (63,219)	$ (66,447,999)	$ 6,542,668

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

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Mobivity Holdings Corp.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
OPERATING ACTIVITIES		
Net loss	$ (1,288,989)	$ (1,729,538)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	3,743	7,222
Amortization of deferred financing costs	103	-
Common stock issued for services	-	363,001
Stock-based compensation	356,609	344,267
Depreciation and amortization expense	146,388	55,746
Change in fair value of derivative liabilities	-	(18,325)
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(89,753)	28,917
Other current assets	(48,897)	(22,964)
Other assets	17,700	(5,700)
Accounts payable	419,669	93,952
Accrued and deferred personnel compensation	(116,191)	(22,501)
Deferred revenue and customer deposits	205,904	(74,018)
Other liabilities	(34,039)	(5,955)
Net cash used in operating activities	(427,753)	(985,896)
INVESTING ACTIVITIES		
Purchases of equipment	(4,237)	(8,076)
Acquisitions	10,730	-
Cash paid for patent	(10,000)	-
Capitalized software development costs	(51,862)	(214,341)
Net cash used in investing activities	(55,369)	(222,417)
FINANCING ACTIVITIES		
Deferred financing costs	(32,287)	-
Proceeds from issuance of common stock, net of issuance costs	1,953,600	4,295,500
Net cash provided by financing activities	1,921,313	4,295,500
Effect of foreign currency translation on cash flow	(19,307)	-

Net change in cash	1,418,884	3,087,187
Cash at beginning of period	634,129	848,230
Cash at end of period	$ 2,053,013	$ 3,935,417
Supplemental disclosures:		
Cash paid during period for:		
Interest	$ 7,593	$ -

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

Mobivity Holdings Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and disclosures required by GAAP for annual financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the condensed consolidated financial statements and notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016.

In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of our condensed consolidated financial statements as of March 31, 2016, and for the three months ended March 31, 2016 and 2015. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the operating results for the full year ending December 31, 2016.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Significant estimates used are those related to stock-based compensation, 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.

Goodwill and Intangible Assets

Goodwill is tested for impairment at a minimum on an annual basis. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using market and discounted cash flow approaches. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow approach uses expected future operating results. Failure to achieve these expected results may cause a future impairment of goodwill at the reporting unit.

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

Software Development Costs

Software development costs include direct costs incurred for internally developed products and payments made to independent software developers and/or contract engineers. The Company accounts for software development costs in accordance with the FASB guidance for the costs of computer software to be sold, leased, or otherwise marketed (“ASC Subtopic 985-20”). Software development costs are capitalized once the technological feasibility of a product is established and such costs are determined to be recoverable. Technological

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feasibility of a product encompasses technical design documentation and integration documentation, or the completed and tested product design and working model. Software development costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable against future revenues. Technological feasibility is evaluated on a project-by-project basis. Amounts related to software development that are not capitalized are charged immediately to the appropriate expense account. Amounts that are considered ‘research and development’ that are not capitalized are immediately charged to engineering, research, and development expense.

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

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

Impairment of Long-Lived Assets

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

Foreign Currency Translation

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

Revenue Recognition and Concentrations

Our SmartReceipt and C4 Mobile Marketing and customer relationship management are hosted solutions. We generate revenue from licensing our software to clients in our software as a service model, per-message and per-minute transactional fees, and customized professional services. We recognize license/subscription fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. We recognize revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. We consider authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting. Some customers are billed on a month to month basis with no contractual term and is collected by credit card. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. Cash received in advance of the performance of services is recorded as deferred revenue.

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

During the three months ended March 31, 2016 and 2015, one customer accounted for 46% and 36%, respectively, of our revenues.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. We are required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the three months ended March 31, 2016, the comprehensive loss was $1,352,208. For the three months ended March 31, 2015, the comprehensive loss was equal to the net loss.

Net Loss Per Common Share

Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. During the three months ended March 31, 2016 and 2015, we had securities

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outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive.

Reclassifications

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

Recent Accounting Pronouncements

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

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

In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross verses Net)”. This amendment provides additional clarification and implementation guidance on the previously issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The amendments in ASU 2016-08 clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The adoption of ASU 2016-08 is to coincide with an entity's adoption of ASU 2014-09, which we intend to adopt for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact that these standards will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard will have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05 regarding Subtopic 350-40, "Intangibles - Goodwill and Other - Internal-Use Software." The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments in ASU 2015-05 are effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The amendments in ASU 2015-05 may be applied either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The Company is currently evaluating the impact of the adoption of this standard will have on our consolidated financial statements.

3. Acquisitions

LiveLenz Acquisition

On January 15, 2016, we acquired all of the outstanding capital stock of LiveLenz Inc., a Nova Scotia corporation ("LiveLenz"), pursuant to an agreement dated January 15, 2016 among the Company and the stockholders of LiveLenz. Pursuant to the agreement, we acquired all of the capital stock of LiveLenz in consideration of our issuance of 1,000,000 shares ("Consideration Shares") of our common stock to the LiveLenz stockholders, our issuance of an additional 15,000 share of our common stock in satisfaction of certain liabilities of LiveLenz, and the assumption of their existing liabilities. The agreement included customary representations, warranties, and covenants by us and the LiveLenz stockholders, including the LiveLenz stockholders' agreement to indemnify us against certain claims or losses resulting from certain breaches of representations, warranties or covenants by the LiveLenz stockholders in the agreement. Pursuant to the agreement, the LiveLenz stockholders have agreed to adjust the number of Consideration Shares downward based on LiveLenz' working capital as of the closing and in the event of any claims for indemnification by us. The LiveLenz stockholders have agreed that 100% of the Consideration Shares will be escrowed for a period of 18 months and subject to forfeiture based on indemnification claims by us or the final determination of LiveLenz' working capital as of the closing date.

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

Cash	$ 10,730
Accounts receivable, net	4,193