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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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

For the transition period from ___________ to __________

Commission file number 000-53851

Mobivity Holdings Corp.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	26-3439095

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

55 N. Arizona Place, Suite 310

Chandler, Arizona 85225

(Address of Principal Executive Offices & Zip Code)

(877) 282-7660

(Registrant's Telephone Number)

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

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

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

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

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

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

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

As of November 9, 2018, the registrant had 45,904,948 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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets		
Cash	$ 5,119,562	$ 460,059
Accounts receivable, net of allowance for doubtful accounts of $9,828 and $2,280, respectively	2,445,292	885,743
Other current assets	215,699	209,536
Total current assets	7,780,553	1,555,338
Goodwill	803,118	803,118
Intangible assets, net	771,991	676,436
Accounts receivable, long term	2,410,130	-
Other assets	92,179	88,916
TOTAL ASSETS	$ 11,857,971	$ 3,123,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,118,287	$ 1,096,003
Accrued interest	6,100	1,168
Accrued and deferred personnel compensation	554,137	590,500
Deferred revenue and customer deposits	3,418,025	1,429,266
Notes payable, net - current maturities	332,312	2,236,224
Other current liabilities	731,421	226,355
Total current liabilities	6,160,282	5,579,516
Non-current liabilities		
Notes payable, net - long term	205,786	180,810
Other long term liabilities	1,509,662	-
Total non-current liabilities	1,715,448	180,810
Total liabilities	7,875,730	5,760,326
Commitments and Contingencies (See Note 9)		
Stockholders' equity		
	45,905	37,025

Common stock, $0.001 par value; 100,000,000 shares authorized; 45,904,948 and 37,025,140, shares issued and outstanding				
Equity payable		100,862		100,862
Additional paid-in capital		87,500,045		77,910,842
Accumulated other comprehensive loss		(46,846)		(65,764)
Accumulated deficit		(83,617,725)		(80,619,483)
Total stockholders' equity		3,982,241		(2,636,518)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	11,857,971	$	3,123,808

See accompanying notes to these unaudited condensed consolidated financial statements.

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Mobivity Holdings Corp.

Condensed Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Revenues	$ 4,561,368	$ 2,083,987	$ 9,620,935	$ 6,436,072
Cost of revenues	1,021,285	786,385	2,570,804	1,943,534
Gross profit	3,540,083	1,297,602	7,050,131	4,492,538
Operating expenses				
General and administrative	857,095	652,762	2,876,029	2,516,249
Sales and marketing	792,678	836,767	3,046,521	2,673,087
Engineering, research, and development	1,683,738	1,177,318	3,637,996	3,080,037
Depreciation and amortization	87,526	105,510	283,224	273,716
Total operating expenses	3,421,037	2,772,357	9,843,770	8,543,089
Income (loss) from operations	119,046	(1,474,755)	(2,793,639)	(4,050,551)
Other income/(expense)				
Interest income	279	962	881	2,878
Interest expense	(25,913)	(62,748)	(193,036)	(115,363)
Gain on sale of fixed assets	-	-	(8,722)	-
Foreign currency (loss) gain	(2,106)	(931)	(3,726)	(4,120)
Total other income/(expense)	(27,740)	(62,717)	(204,603)	(116,605)
Income (loss) before income taxes	91,306	(1,537,472)	(2,998,242)	(4,167,156)
Income tax expense	-	-	-	-
Net Income (loss)	91,306	(1,537,472)	(2,998,242)	(4,167,156)
Other comprehensive income (loss), net of income tax				
Foreign currency translation adjustments	38,179	(20,294)	18,918	(36,158)
Comprehensive income (loss)	$ 129,485	$ (1,557,766)	$ (2,979,324)	$ (4,203,314)
Net income (loss) per share:				
Basic	$ 0.00	$ (0.04)	$ (0.07)	$ (0.11)
Diluted	$ 0.00	$ (0.04)	$ (0.07)	$ (0.11)
Weighted average number of shares:				
Basic	45,719,664	36,683,122	41,325,443	36,488,448
Diluted	53,394,242	36,683,122	41,325,443	36,488,448

See accompanying notes to these unaudited condensed consolidated financial statements.

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Mobivity Holdings Corp.

Consolidated Statement of Stockholders' Equity

	Common Stock		Equity	Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders' Equity
	Shares	Dollars	Payable	Capital	Loss	Deficit	(Deficit)
Balance, December 31, 2016	36,388,997	$ 36,389	$ 100,862	$ 76,698,383	$ (32,999)	$ (74,673,471)	2,129,164
Issuance of common stock for options exercised	152,085	152	-	82,646	-	-	82,798
Issuance of common stock for restricted stock awards	484,058	484	-	(484)	-	-	-
Stock based compensation	-	-	-	1,130,297	-	-	1,130,297
Foreign currency translation adjustment	-	-	-	-	(32,765)	-	(32,765)
Net loss	-	-	-	-	-	(5,946,012)	(5,946,012)
Balance, December 31, 2017	37,025,140	$ 37,025	$ 100,862	$ 77,910,842	$ (65,764)	$ (80,619,483)	$ (2,636,518)
Issuance of common stock for cash	5,775,000	5,775	-	5,769,225	-	-	5,775,000
Issuance of common stock for warrant conversion	2,018,125	2,018	-	2,151,829	-	-	2,153,847
Issuance of common stock for debt conversion	1,047,583	1,047	-	1,088,439	-	-	1,089,486

Issuance of common stock for cashless warrant conversion	1,808	2	-	(2)	-	-	-
Issuance of common stock for options exercised	37,292	37	-	21,458	-	-	21,495
Stock based compensation	-	-	-	558,254	-	-	558,254
Foreign currency translation adjustment	-	-	-	-	18,918	-	18,918
Net loss	-	-	-	-	-	(2,998,242)	(2,998,242)
Balance, September 30, 2018	45,904,948	$ 45,905	$ 100,862	$ 87,500,045	$ (46,846)	$ (83,617,725)	$ 3,982,241

See accompanying notes to these unaudited condensed consolidated financial statements.

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Mobivity Holdings Corp.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2018	2017
OPERATING ACTIVITIES		
Net loss	$ (2,998,242)	$ (4,167,156)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	9,878	(7,277)
Loss on conversion of debt	41,903	-
Amortization of deferred financing costs	-	20,245
Stock-based compensation	558,254	855,738
Loss on disposal of fixed assets	8,722	-
Depreciation and amortization expense	283,224	273,716
Adjustments due to ASC 606	(1,495,290)	-
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(348,260)	(159,958)
Other current assets	(6,347)	(106,813)
Other assets	-	10,957
Accounts payable	27,371	351,089
Accrued interest	(62,615)	1,040
Accrued and deferred personnel compensation	(36,340)	(252,394)
Other liabilities - non-current	4,705	-
Other liabilities - current	(19,176)	(19,787)
Deferred revenue and customer deposits	1,989,098	1,963,429
Net cash provided by (used in) operating activities	(2,043,115)	(1,237,171)
INVESTING ACTIVITIES		
Purchases of equipment	(20,306)	(4,989)
Cash paid for patent	-	(16,810)
Capitalized software development costs	(356,865)	(382,023)
Net cash used in investing activities	(377,171)	(403,822)
FINANCING ACTIVITIES		
Payments on notes payable	(2,984,472)	-
Deferred financing costs	-	(15,000)
Net borrowings under line of credit agreement	-	1,999,531

Proceeds from notes payable	2,095,000	114,749
Proceeds from issuance of common stock, net of issuance costs	7,950,343	59,797
Net cash provided by financing activities	7,060,871	2,159,077
Effect of foreign currency translation on cash flow	18,918	2,560
Net change in cash	4,659,503	520,644
Cash at beginning of period	460,059	1,188,485
Cash at end of period	$ 5,119,562	$ 1,709,129
Supplemental disclosures:		
Cash paid during period for:		
Interest	$ 25,913	$ 115,363
Non cash investing and financing activities:		
Issuance of common stock for cashless exercise	$ 2	$ -
Issuance of common stock for debt conversion	$ 1,047,584	$ -
Issuance of common stock from restricted stock awards	$ -	$ 264

See accompanying notes to these unaudited condensed consolidated financial statements.

Mobivity Holdings Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations and Basis of Presentation

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

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Accounts Receivable, Allowance for Doubtful Accounts and Concentrations

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

As of September 30, 2018, and December 31, 2017, we recorded an allowance for doubtful accounts of $9,828 and $2,280 respectively.

Goodwill and Intangible Assets

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

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

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

Software Development Costs

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

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

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

Impairment of Long-Lived Assets

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

Foreign Currency Translation

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

Revenue Recognition and Concentrations

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

During the nine months ended September 30, 2018, three customers accounted for 73% of our revenues. During the nine months ended September 30, 2017, two customers accounted for 69% of our revenues.

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Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. We are required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the three and nine months ended September 30, 2018, the comprehensive income (loss) was $129,485 and $(2,979,324) respectively.

Net Loss Per Common Share

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

Reclassifications

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

Recent Accounting Pronouncements

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

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

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

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

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

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

3. New Accounting Standards

Revenue from Contracts with Customers.

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

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

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

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

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

SaaS	Ratable	Ratable

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

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Financial Statement Impact of Transition to ASC 606

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

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

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

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

Condensed Consolidated Statement of Operations

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As reported	Total Adjustments Under ASC 606	Amounts Under Previous Standards	As reported	Total Adjustments Under ASC 606	Amounts Under Previous Standards
Revenues						
Revenues	$ 4,561,368	$ 2,188,590	$ 2,372,778	$ 9,620,935	$ 3,631,206	$ 5,989,729
Cost of revenues	1,021,285	-	1,021,285	2,570,804	-	2,570,804
Gross profit	3,540,083	2,188,590	1,351,494	7,050,131	3,631,206	3,418,926
Operating expenses						
General and administrative	857,095	130,366	726,729	2,876,029	213,607	2,662,422
Sales and marketing	792,678	-	792,678	3,046,521	-	3,046,521
Engineering, research, and development	1,683,738	1,173,295	510,443	3,637,996	1,922,465	1,715,531
Depreciation and amortization	87,526	-	87,526	283,224	-	283,224
Total operating expenses	3,421,037	1,303,661	2,117,376	9,843,770	2,136,072	7,707,698
Income (loss) from operations	119,046	884,929	(765,883)	(2,793,639)	1,495,134	(4,288,773)
Other income/(expense)						
Interest income	279	-	279	881	-	881
Interest expense	(25,913)	-	(25,913)	(193,036)	-	(193,036)
Gain on sale of fixed assets	-	-	-	(8,722)	-	(8,722)

Foreign currency (loss) gain	(2,106)	-	(2,106)	(3,726)	-	(3,726)
Total other income/(expense)	(27,740)	-	(27,740)	(204,603)	-	(204,604)
Income (loss) before income taxes	91,306	884,929	(793,623)	(2,998,242)	1,495,134	(4,493,376)
Income tax expense	-	-	-	-	-	-
Net income (loss)	91,306	884,929	(793,623)	(2,998,242)	1,495,134	(4,493,376)
Other comprehensive income (loss), net of income tax						
Foreign currency translation adjustments	38,179	-	38,179	18,918	-	18,918
Comprehensive income (loss)	$ 129,485	$ 884,929	$ (755,444)	$ (2,979,324)	$ 1,495,134	$ (4,474,458)
Net income (loss) per share:						
Basic	$ 0.00	$ 0.02	$ (0.01)	$ (0.07)	$ 0.04	$ (0.11)
Diluted	$ 0.00	$ 0.02	$ (0.01)	$ (0.07)	$ 0.04	$ (0.11)
Weighted average number of shares outstanding:						
Basic	45,719,664	45,719,664	45,719,664	41,325,443	41,325,443	41,325,443
Diluted	53,394,242	53,394,242	53,394,242	41,325,443	41,325,443	41,325,443

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Condensed Consolidated Balance Sheet

	September 30, 2018 As Reported	Total Adjustments Under ASC 606	Amounts Under Previous Standards
ASSETS			
Current assets			
Cash	$ 5,119,562	$ -	$ 5,119,562
Accounts receivable, net of allowance for doubtful accounts of $9,828	2,445,292	(1,221,076)	1,224,216
Other current assets	215,699	-	215,699
Total current assets	7,780,553	(1,221,076)	6,559,477
Goodwill	803,118	-	803,118
Intangible assets, net	771,991	-	771,991
Accounts receivable, long term	2,410,130	(2,410,130)	-
Other assets	92,179	-	92,179
TOTAL ASSETS	$ 11,857,971	$ (3,631,206)	$ 8,226,765
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 1,118,287	$ -	$ 1,118,287
Accrued interest	6,100	-	6,100
Accrued and deferred personnel compensation	554,137	-	554,137
Deferred revenue and customer deposits	3,418,025	-	3,418,025
Notes payable, net - current maturities	332,312	-	332,312
Other current liabilities	731,421	(672,340)	59,081
Total current liabilities	6,160,282	(672,340)	5,487,942
Non-current liabilities			
Notes payable, net - long term	205,786	-	205,786
Other long term liabilities	1,509,662	(1,463,732)	45,930
Total non-current liabilities	1,715,448	(1,463,732)	251,716
Total liabilities	7,875,730	(2,136,072)	5,739,658
Commitments and Contingencies (See Note 9)			
Stockholders' equity			
Common stock, $0.001 par value; 100,000,000 shares authorized; 45,904,948 and 45,904,948, shares issued and outstanding	45,905	-	45,905
Equity payable	100,862	-	100,862
Additional paid-in capital	87,500,045	-	87,500,045
Accumulated other comprehensive loss	(46,846)	-	(46,846)

Accumulated deficit	(83,617,725)	(1,495,134)	(85,112,859)
Total stockholders' equity	3,982,241	(1,495,134)	2,487,107
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,857,971	$ (3,631,206)	$ 8,226,765

4. Goodwill and Purchased Intangibles

Goodwill

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

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Intangible assets

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

	Balance at December 31, 2017	Additions	Impairments	Amortization	Fx and Other	Balance at September 30, 2018
Patents and trademarks	$ 118,178	$ -	$ -	$ (8,460)	$ (1,277)	$ 108,441
Customer and merchant relationships	153,448	-	-	(18,414)	-	135,034
Trade name	41,033	-	-	(4,867)	(117)	36,049
	$ 312,659	$ -	$ -	$ (31,741)	$ (1,394)	$ 279,524

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

Amortization expense for intangible assets was $9,976 and $10,796 for the three months ended September 30, 2018 and 2017, respectively.

Amortization expense for intangible assets was $31,741 and $32,297 for the nine months ended September 30, 2018 and 2017, respectively.

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

Year ending December 31,	Amount
2018	$ 11,604
2019	43,963
2020	42,201
2021	40,148
2022	40,148
Thereafter	101,460
Total	$ 279,524

5. Software Development Costs

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

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

	Balance at December 31, 2017	Additions	Amortization	Balance at September 30, 2018
Software Development Costs	$ 363,777	$ 356,865	$ (228,175)	$ 492,467
	$ 363,777	$ 356,865	$ (228,175)	$ 492,467

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

Amortization expense for software development costs was $68,788 and $87,821 for the three months ended September 30, 2018 and 2017, respectively.

Amortization expense for software development costs was $228,175 and $220,691 for the nine months ended September 30, 2018 and 2017, respectively.

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