IZEA Worldwide, Inc.
Form 10-Q
November 14, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

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

For the transition period from _________________ to _________________

Commission File No.: 001-37703

IZEA WORLDWIDE, INC.
(Exact name of registrant as specified in its charter)

Nevada	37-1530765
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

480 N. Orlando Avenue, Suite 200 Winter Park, FL	32789
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (407) 674-6911

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 o Accelerated filer o Smaller reporting company x
Non-accelerated filer x Emerging growth company o

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 pursuant to Section 13(a) of the Exchange Act. o

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

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of November 12, 2018, there were 12,073,031 shares of our common stock outstanding.

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Quarterly Report on Form 10-Q for the period ended September 30, 2018

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

IZEA Worldwide, Inc.
Unaudited Consolidated Balance Sheets

	September 30, 2018	December 31, 2017
Assets		
Current:		
Cash and cash equivalents	$3,864,676	$3,906,797
Accounts receivable, net	6,811,029	3,647,025
Prepaid expenses	573,611	389,104
Other current assets	84,359	9,140
Total current assets	11,333,675	7,952,066
Property and equipment, net	309,374	286,043
Goodwill	8,316,722	3,604,720
Intangible assets, net	3,472,855	667,909
Software development costs, net	1,233,988	967,927
Security deposits	154,248	148,638
Total assets	$24,820,862	$13,627,303
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,831,696	$1,756,841
Accrued expenses	2,146,862	1,592,356
Contract liabilities	5,631,096	—
Unearned revenue	—	3,070,502
Line of credit	1,733,420	500,550
Current portion of deferred rent	29,187	45,127
Current portion of acquisition costs payable	4,535,930	741,155
Total current liabilities	16,908,191	7,706,531
Deferred rent, less current portion	—	17,419
Acquisition costs payable, less current portion	43,055	609,768
Total liabilities	16,951,246	8,333,718
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock; $.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $.0001 par value; 200,000,000 shares authorized; 12,073,031 and 5,733,981, respectively, issued and outstanding	1,207	573
Additional paid-in capital	60,270,355	52,570,432
Accumulated deficit	(52,401,946)	(47,277,420)
Total stockholders' equity	7,869,616	5,293,585

Total liabilities and stockholders' equity	$24,820,862	$13,627,303

See accompanying notes to the unaudited consolidated financial statements.

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IZEA Worldwide, Inc.
Unaudited Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$5,780,941	$7,089,855	$13,798,342	$17,637,264
Costs and expenses:				
Cost of revenue (exclusive of amortization)	2,397,466	3,302,626	6,490,906	8,354,385
Sales and marketing	1,574,335	1,733,178	5,065,457	6,008,526
General and administrative	2,699,978	2,312,301	6,285,810	6,925,589
Depreciation and amortization	370,674	374,965	846,820	1,095,831
Total costs and expenses	7,042,453	7,723,070	18,688,993	22,384,331
Loss from operations	(1,261,512)	(633,215)	(4,890,651)	(4,747,067)
Other income (expense):				
Interest expense	(90,452)	(15,058)	(147,166)	(45,406)
Change in fair value of derivatives, net	—	45,160	(11,794)	36,122
Other income, net	19,135	44,308	23,907	31,728
Total other income (expense), net	(71,317)	74,410	(135,053)	22,444
Net loss	$(1,332,829)	$(558,805)	$(5,025,704)	$(4,724,623)
Weighted average common shares outstanding – basic and diluted	10,365,750	5,702,297	7,351,827	5,659,423
Basic and diluted loss per common share	$(0.13)	$(0.10)	$(0.68)	$(0.83)

See accompanying notes to the unaudited consolidated financial statements.

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IZEA Worldwide, Inc.
Unaudited Consolidated Statement of Stockholders' Equity

	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance, December 31, 2017	5,733,981	$ 573	$ 52,570,432	$ (47,277,420)	$ 5,293,585
Cumulative effect of change in accounting policy to ASC 606	—	—	—	(98,822)	(98,822)
Sale of securities	4,963,333	496	5,666,504	—	5,667,000
Stock issued for payment of acquisition liability	1,248,765	125	1,896,658	—	1,896,783
Stock purchase plan issuances	11,189	1	9,034	—	9,035
Stock issued for payment of services	30,265	3	124,997	—	125,000
Stock issuance costs	—	—	(709,634)	—	(709,634)
Stock-based compensation	85,498	9	712,364	—	712,373
Net loss	—	—	—	(5,025,704)	(5,025,704)
Balance, September 30, 2018	12,073,031	$ 1,207	$ 60,270,355	$ (52,401,946)	$ 7,869,616

See accompanying notes to the unaudited consolidated financial statements.

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IZEA Worldwide, Inc.
Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(5,025,704)	$(4,724,623)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	167,900	163,597
Amortization of software development costs and other intangible assets	678,920	932,234
(Gain) loss on disposal of equipment	5,242	(5,462)
Provision for losses on accounts receivable	—	44,827
Stock-based compensation	468,042	509,642
Fair value of stock issued for payment of services	93,734	143,536
Increase (decrease) in fair value of contingent acquisition costs payable	(485,747)	62,000
Gain on settlement of acquisition costs payable	(84,938)	(10,491)
Change in fair value of derivatives, net	11,794	(36,122)
Changes in operating assets and liabilities, net of effects of business acquired:		
Accounts receivable	73,744	(1,552,555)
Prepaid expenses and other current assets	32,007	(84,798)
Accounts payable	924,039	242,033
Accrued expenses	(1,638,319)	946,002
Contract liabilities	654,859	—
Unearned revenue	—	435,054
Deferred rent	(33,359)	(25,764)
Net cash used for operating activities	(4,157,786)	(2,960,890)
Cash flows from investing activities:		
Purchase of equipment	(157,384)	(7,762)
Merger with TapInfluence, net of cash acquired	11,266	—
Increase in software development costs	(486,927)	(85,460)
Security deposits	(5,610)	4,309
Net cash used for investing activities	(638,655)	(88,913)
Cash flows from financing activities:		
Payments on acquisition liabilities	(120,930)	(266,898)
Proceeds from sale of securities	5,667,000	—
Proceeds from line of credit, net of repayments	(91,151)	810,376
Proceeds from stock purchase plan issuances	9,035	16,232
Stock issuance costs	(709,634)	(10,913)
Net cash provided by financing activities	4,754,320	548,797
Net decrease in cash and cash equivalents	(42,121)	(2,501,006)
Cash and cash equivalents, beginning of year	3,906,797	5,949,004
Cash and cash equivalents, end of period	$3,864,676	$3,447,998
Supplemental cash flow information:		
Cash paid during the period for interest	$104,028	$29,700

Non-cash financing and investing activities:		
Common stock issued for payment of acquisition liability	$1,896,783	$928,041
Fair value of common stock issued for future services	$317,134	$23,110

See accompanying notes to the unaudited consolidated financial statements.

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IZEA Worldwide, Inc.
Notes to the Unaudited Consolidated Financial Statements

NOTE 1. COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information
The accompanying consolidated balance sheet as of September 30, 2018, the consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017, the consolidated statement of stockholders' equity for the nine months ended September 30, 2018 and the consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 are unaudited but include all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position at such dates and its results of operations and cash flows for the periods then ended in conformity with generally accepted accounting principles in the United States ("GAAP"). The consolidated balance sheet as of December 31, 2017 has been derived from the audited consolidated financial statements at that date but, in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"), does not include all of the information and notes required by GAAP for complete financial statements. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the SEC on April 17, 2018.

Nature of Business
IZEA Worldwide, Inc. (together with its wholly-owned subsidiaries, “we,” “us,” “our,” “IZEA” or the “Company”) was founde in February 2006 under the name PayPerPost, Inc. and became a public company incorporated in the state of Nevada in May 2011. In January 2015, IZEA purchased all of the outstanding shares of capital stock of Ebyline, Inc. (“Ebyline”). In July 2016, IZEA purchased all the outstanding shares of capital stock of ZenContent, Inc. (“ZenContent”). The legal entity of ZenContent was dissolved in December 2017 after all assets and transactions were transferred to IZEA. On March 9, 2016, the Company formed IZEA Canada, Inc., a wholly-owned subsidiary, incorporated in Ontario, Canada to operate as a sales and support office for IZEA's Canadian customers. On July 26, 2018, the Company merged with TapInfluence, Inc. ("TapInfluence") pursuant to the terms of an Agreement and Plan of Merger dated as of July 11, 2018, and amended July 20, 2018.

Effective August 20, 2018, the Company changed its name from IZEA, Inc. to IZEA Worldwide, Inc. The Company is headquartered near Orlando, Florida with additional offices in California, Colorado, Illinois, New York and Canada.

The Company creates and operates online marketplaces that connect marketers with content creators. The creators are compensated by IZEA for producing unique content such as long and short form text, videos, photos, status updates, and illustrations for marketers or distributing such content on behalf of marketers through their personal websites, blogs, and social media channels. Marketers receive influential consumer content and engaging, shareable stories that drive awareness.

The Company's primary technology platform, The IZEA Exchange (“IZEAx”), enables transactions to be completed at scale through the management of custom content workflow, creator search and targeting, bidding, analytics, and payment processing. IZEAx is designed to provide a unified ecosystem that enables the creation and publication of multiple types of custom content through a creator's personal websites, blogs, or social media channels including Twitter, Facebook, Instagram, and YouTube, among others. In addition to IZEAx, the Company operates the Ebyline technology platform, which it acquired in January 2015, and the TapInfluence technology platform, which it acquired in July 2018. The Ebyline platform was originally designed as a self-service content marketplace to replace editorial newsrooms in the news agencies with a “virtual newsroom” to handle their content workflow. The TapInfluence platform performs in a similar manner to IZEAx and is being utilized by the majority of its customers as a self-service platform via a licensing arrangement, allowing access to the platform and its creators for self-managed marketing campaigns.

Liquidity and Going Concern

The Company’s financial statements are prepared using GAAP applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred significant net losses and negative cash flow from operations for most periods since its inception, which has resulted in a total accumulated deficit of $52,401,946 as of September 30, 2018. For the nine months ended September 30, 2018, the Company had a net loss of $5,025,704 and the Company expects to incur a net loss for the fiscal year 2018. The Company's cash balance as of September 30, 2018 was $3,864,676 and the Company's operating activities used cash of $4,157,786 for the nine months ended September 30, 2018. The Company’s revenues decreased year-over-year for the nine months ended September 30, 2018. If the Company's annual revenue continues to decline from prior year levels at a rate similar to or greater than the decline in the first three quarters of 2018 and future commitments do not increase, the Company’s cash resources will likely be insufficient to meet its obligations as they become due during the next twelve months.

IZEA Worldwide, Inc.
Notes to the Unaudited Consolidated Financial Statements

As further discussed in Note 6, the Company received net proceeds of $3,140,647 and $1,820,965 from two separate underwritten public offerings on July 2, 2018 and September 21, 2018, respectively. The Company used a portion of the July 2, 2018 proceeds to finance its merger with TapInfluence and has agreed to pay TapInfluence stockholders an additional $4,500,000 in the form of cash, common stock or a combination thereof, at IZEA’s option, in two installments - $1,000,000 six months after the closing date of the merger and $3,500,000 twelve months after the closing date of the merger. The Company does not have enough cash to cover these current obligations and will rely on its ability to issue shares of its common stock as payment, its ability to raise additional capital through the sale of equity or equity linked securities, or its ability to utilize or secure other debt financing to pay for its current obligations.

The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses and its acquisition liabilities until it achieves and maintains profitability. Management’s plans to continue as a going concern include raising additional capital through sales of securities, issuing shares of stock to pay for its obligations, and increasing its borrowing levels. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. If the Company is not able to substantially increase sales, obtain and sustain profitability and obtain the necessary additional financing on a timely basis or on acceptable terms, the Company will be required to delay, reduce the scope of, or eliminate current expansion and development plans, initiate reductions in its workforce, or perhaps even cease the operation of its business. Therefore, there is substantial doubt about the ability of the Company to continue as a going concern for one year from the issuance of the accompanying financial statements. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Principles of Consolidation
The consolidated financial statements include the accounts of IZEA Worldwide, Inc. and its wholly-owned subsidiaries, subsequent to the subsidiaries' individual acquisition, merger or formation dates, as applicable. All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements were prepared using the acquisition method of accounting with IZEA considered the accounting acquirer of Ebyline, ZenContent, and TapInfluence. Under the acquisition method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values with any excess purchase price allocated to goodwill.

Restatement
As described in its Annual Report on Form 10-K for the year ended December 31, 2017, the Company restated its previously issued financial statements included in its Annual Reports on Form 10-K for the years ended December 31, 2015 and 2016 and Quarterly Reports on Form 10-Q for each quarterly period for the years ended December 31, 2015 and 2016, and for the first three quarters for the year ended December 31, 2017 (collectively, the “Restated Periods”).

The restatement reclassified direct costs associated with the Company's Content Workflow transactions previously reported as cost of revenue to net them directly against revenue in the Company's consolidated statements of operations. Additionally, the Company reclassified the cost of its campaign fulfillment personnel out of sales and marketing expenses and into cost of revenue. As part of the restatement process, the Company also elected to present depreciation and amortization expense as a separate line item. The restatement of the consolidated statement of operations reflected no change in the Company's previously reported loss from operations, net loss, loss per share, or on any of the Company's consolidated balance sheets, statements of cash flows, and statements of stockholders' equity. All amounts related to the Restated Periods of the consolidated statement of operations included herein reflect the restated amounts as reflected in Notes 2 and 14 of the Audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed on April 17, 2018.

Cash and Cash Equivalents
The Company considers all highly liquid investments purchased with a maturity of three months or less from the date of purchase to be cash equivalents.

Accounts Receivable and Concentration of Credit Risk
Accounts receivable are customer obligations due under normal trade terms. Uncollectibility of accounts receivable is not significant since most customers are bound by contract and are required to fund the Company for all the costs of an “opportunity” or "assignment," defined as an order created by a marketer for a creator to develop or share content on behalf of a marketer. If a portion of the account balance is deemed uncollectible, the Company will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. The Company controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable. Management determines the collectibility of accounts by regularly evaluating individual customer

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receivables and considering a customer's financial condition, credit history and current economic conditions. The Company had a reserve of $317,190 and $189,000 for doubtful accounts as of September 30, 2018 and December 31, 2017, respectively. Management believes that this estimate is reasonable, but there can be no assurance that the estimate will not change as a result of a change in economic conditions or business conditions within the industry, the individual customers or the Company. Any adjustments to this account are reflected in the consolidated statements of operations as a general and administrative expense. Bad debt expense was less than 1% of revenue for the three and nine months ended September 30, 2018 and 2017.

Concentrations of credit risk with respect to accounts receivable are typically limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. However, the Company had two customers that together accounted for 39% of total accounts receivable at September 30, 2018. The Company had no customer that accounted for more than 10% of total accounts receivable at December 31, 2017. The Company had no customer that accounted for more than 10% of its revenue during the three months ended September 30, 2018 and one customer that accounted for 13% of its revenue during the three months ended September 30, 2017. The Company had no customer that accounted for more than10% of its revenue during the nine months ended September 30, 2018 and 2017.

Property and Equipment
Property and equipment are recorded at cost, or if acquired in a business combination, at the acquisition date fair value. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Computer Equipment	3 years
Software Costs	3 - 5 years
Office Equipment	3 - 10 years
Furniture and Fixtures	5 - 10 years

Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful lives of the improvements. Property and equipment under capital leases are depreciated over their estimated useful lives. Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for betterments and major improvements are capitalized and depreciated over the remaining useful lives of the assets. The carrying amounts of assets sold or retired and the related accumulated depreciation are eliminated in the year of disposal, with resulting gains or losses included in general and administrative expense.

Depreciation expense on property and equipment recorded in depreciation and amortization expense in the accompanying consolidated statements of operations was $55,034 and $50,168 for the three months ended September 30, 2018 and 2017, respectively. Depreciation expense on property and equipment recorded in depreciation and amortization expense in the accompanying consolidated statements of operations was $167,900 and $163,597 for the nine months ended September 30, 2018 and 2017, respectively. Property and equipment is recorded net of accumulated depreciation and amortization amounts of $944,568 and $790,029 as of September 30, 2018 and December 31, 2017, respectively.

Goodwill and Business Combinations
Goodwill represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets. The Company has goodwill in connection with its acquisitions of Ebyline, ZenContent, and TapInfluence. Goodwill is not amortized, but instead it is tested for impairment at least annually. In the event that management determines that the value of goodwill has become impaired, the Company will record a charge for the amount of impairment during the fiscal quarter in which the determination is made.

The Company performs its annual impairment tests of goodwill during the fourth quarter of each year, or more frequently, if certain indicators are present. Goodwill is required to be tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment level, which is referred to as a component. Management identifies its reporting units by assessing whether components (i) have discrete financial information available; (ii) engage in business activities; and (iii) whether a segment manager regularly reviews the component's operating results. Net assets and goodwill of acquired businesses are allocated to the reporting unit associated with the acquired business based on the anticipated organizational structure of the combined entities. If two or more components are deemed economically similar, those components are aggregated into one reporting unit when performing the annual goodwill impairment review. The Company has determined that prior to and after the acquisitions of Ebyline and ZenContent, it had one reporting unit. Subsequent to the merger with TapInfluence, the Company has determined that it has two reporting units. See further discussion regarding segment reporting in Note 9. For the three and nine months ended September 30, 2018 and 2017, there were no impairment charges associated with the Company's goodwill.

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Notes to the Unaudited Consolidated Financial Statements

Intangible Assets
The Company acquired the majority of its intangible assets through its acquisitions of Ebyline, ZenContent, and TapInfluence. The Company is amortizing the identifiable intangible assets over periods of 12 to 60 months. See Note 3 for further details.

Management reviews long-lived assets, including property and equipment, software development costs and other intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared with the asset's carrying amount to determine if there has been an impairment, which is calculated as the difference between the fair value of an asset and its carrying value. Estimates of future undiscounted cash flows are based on expected growth rates for the business, anticipated future economic conditions and estimates of residual values. Fair values take into consideration management estimates of risk-adjusted discount rates, which are believed to be consistent with assumptions that marketplace participants would use in their estimates of fair value. For the three and nine months ended September 30, 2018 and 2017, there were no impairment charges associated with the Company's long-lived assets.

Software Development Costs
In accordance with ASC 350-40, Internal Use Software, the Company capitalizes certain internal use software development costs associated with creating and enhancing internally developed software related to its platforms. Software development activities generally consist of three stages; (i) the research and planning stage, (ii) the application and development stage, and (iii) the post-implementation stage. Costs incurred in the planning and post-implementation stages of software development, or other maintenance and development expenses that do not meet the qualification for capitalization, are expensed as incurred. Costs incurred in the application and infrastructure development stage, including significant enhancements and upgrades, are capitalized. These costs include personnel and related employee benefits expenses for employees or consultants who are directly associated with and who devote time to software projects, and external direct costs of materials obtained in developing the software. These software development and acquired technology costs are amortized on a straight-line basis over the estimated useful life of five years upon initial release of the software or additional features. See Note 4 for further details.

Revenue Recognition
The Company derives its revenue from providing content services or managing advertising campaigns for its customers, as well as from making its platforms available to allow customers the ability to purchase content directly from its creators, and to self-manage their own campaigns. Managed Services is when a marketer (typically a brand, agency or partner) contracts IZEA to provide custom content, influencer marketing, amplification or other consulting services. Marketplace Spend Fees are fees charged to self-service customers on their marketplace spend within the Company's platforms. License Fees consist of fees charged to access the IZEAx, Ebyline, and TapInfluence technology platforms. Other Fees are generated from various service fees charged to users of the Company's platforms.

On January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (ASC 606) using the modified retrospective method, under which comparative periods will not be restated and the cumulative effect of applying the standard will be recognized at the date of initial adoption on January 1, 2018. Under the modified retrospective method, the Company only applied the new standard to contracts that were not completed as of January 1, 2018. Under ASC 606, revenue is recognized based on a five-step model and, in doing so, more judgment and estimates may be required within the revenue recognition process than were required under the former rules. The Company has reviewed its sources of revenue in accordance with each of the five steps in the model, which are as follows: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) performance obligations are satisfied. The core principle of ASC 606 is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company applies the five-step model to contracts when it is probable that it will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are distinct performance obligations. The Company also determines whether it acts as an agent or a principal for each identified performance obligation. The determination of whether the Company acts as the principal or the agent is highly subjective and requires the Company to evaluate a number of indicators individually and as a whole in order to make its determination. For transactions in which the Company acts as a principal, revenue is reported on a gross basis as the amount paid by the marketer for the purchase of content or sponsorship, promotion and other related services and the Company records the amounts it pays to third-party creators as cost of revenue. For transactions in which the Company acts as an agent, revenue is reported on a net basis as the amount the Company charged to the self-service marketer using the Company's platform, less the amounts paid to the third-party creators providing the service.

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The Company maintains separate arrangements with each marketer and content creator either in the form of a master agreement or terms of service, which specifies the terms of the relationship and access to its platforms, or by statement of work, which specifies the price and the services to be performed, along with other terms. The transaction price is determined based on the fixed fee stated in the statement of work and does not contain variable consideration. Marketers who contract with the Company to manage their advertising campaigns or custom content requests may prepay for services or request credit terms. Payment terms are typically 30 days from the invoice date. The agreement typically provides for a cancellation fee if the agreement is canceled by the customer prior to completion of services. Billings in advance of completed services are recorded as a contract liability until earned. The Company assesses collectibility based on a number of factors, including the creditworthiness of the customer and payment and transaction history. The allocation of the transaction price to the performance obligations in the contract is based on a cost plus methodology.

For Managed Services, the Company enters into an agreement to provide services that may include multiple distinct performance obligations in the form of: (i) an integrated marketing campaign to provide influencer marketing services, which may include the provision of blogs, tweets, photos or videos shared through social network offerings and content promotion, such as click-through advertisements appearing in websites and social media channels; and (ii) custom content items, such as a research or news article, informational material or videos. Marketers typically purchase influencer marketing services for the purpose of providing public awareness or advertising buzz regarding the marketer's brand and they purchase custom content for internal and external use. The Company may provide one type or a combination of all types of these performance obligations on a statement of work for a lump sum fee. The Company allocates revenue to each performance obligation in the contract at inception based on its relative standalone selling price. These performance obligations are to be provided over a stated period that may range from one day to one year. Revenue is accounted for when the performance obligation has been satisfied depending on the type of service provided. The Company views its obligation to deliver influencer marketing services, including management services, as a single performance obligation that is satisfied over time as the customer receives the benefits from the services. Revenue is recognized using an input method of costs incurred compared to total expected costs to measure the progress towards satisfying the overall performance obligation of the marketing campaign. The delivery of custom content represents a distinct performance obligation that is satisfied over time as the Company has no alternative for the custom content and the Company has an enforceable right to payment for performance completed to date under the contracts. The Company considers custom content to be a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer, and revenue is recognized over time using an output method based on when each individual piece of content is delivered to the customer. Based on the Company's evaluations, revenue from Managed Services is reported on a gross basis, because the Company has the primary obligation to fulfill the performance obligations and it creates, reviews and controls the services. The Company takes on the risk of payment to any third-party creators and it establishes the contract price directly with its customers based on the services requested in the statement of work.

For Marketplace Spend services (including Legacy Workflow), the self-service customer instructs creators found through the Company's platforms to provide and/or distribute custom content for an agreed upon transaction fee. The Company's platforms control the contracting, description of services, acceptance of and payment for the requested content. This service is used primarily by news agencies or marketers to control the outsourcing of their content and advertising needs. The Company charges the self-service customer the transaction price plus a fee based on the contract. Revenue is recognized when the transaction is completed by the creator and accepted by the marketer. Based on the Company's evaluations, Marketplace Spend Fee revenue is reported on a net basis since the Company is acting as an agent solely arranging for the third-party creator or influencer to provide the services directly to the self-service customer through the platform, and are typically recognized upon publishing or purchase of the marketplace spend by the creator and verification of the publishing by the marketer.

License Fee revenue is generated through the granting of limited, non-exclusive, non-transferable licenses to customers for the use of the IZEAx and TapIfluence technology platforms for an agreed-upon subscription period. Customers license the platforms to manage their own influencer marketing campaigns. Fees for subscription or licensing services are recognized straight-line over the term of the service.

Other Fee revenue is generated when fees are charged to customers primarily related to monthly plan fees, inactivity fees, and early cash-out fees. Plan fees are recognized within the month they relate to, and inactivity and early cash-out fees are recognized at a point in time when the account is deemed inactive or a cash-out below certain minimum thresholds is requested.

The Company does not typically engage in contracts that are longer than one year. Therefore, the Company does not capitalize costs to obtain its customer contracts as these amounts would be generally recognized over less than one year and are not material.

See Note 8 for further details on the Company's adoption and disclosures related to ASC 606.

Advertising Costs
Advertising costs are charged to expense as they are incurred, including payments to content creators to promote the Company. Advertising costs charged to operations for the three months ended September 30, 2018 and 2017 were approximately $94,000 and $79,000, respectively. Advertising costs charged to operations for the nine months ended September 30, 2018 and 2017 were approximately $412,000 and $248,000, respectively. Advertising costs are included in sales and marketing expense in the accompanying consolidated statements of operations.

Deferred Rent
The Company's operating leases for its office facilities contain rent abatements and predetermined fixed increases of the base rental rate during the lease terms. The Company accounts for rental expense on a straight-line basis over the lease terms. The Company records the difference between the straight-line expense and the actual amounts paid under the lease as deferred rent in the accompanying consolidated balance sheets.

Income Taxes
The Company has not recorded federal income tax expense due to the generation of net operating losses. Deferred income taxes are accounted for using the balance sheet approach, which requires recognition of deferred tax assets and liabilities for the expected future consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized. The Company incurs minimal state franchise tax in four states, which is included in general and administrative expense in the consolidated statements of operations.

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company's tax years subject to examination by the Internal Revenue Service are 2014, 2015 and 2016.

Derivative Financial Instruments
Derivative financial instruments are defined as financial instruments or other contracts that contain a notional amount and one or more underlying factors (e.g., interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or assets. The Company accounts for derivative instruments in accordance with ASC 815, Derivatives and Hedging ("ASC 815"), which requires additional disclosures about the Company's objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements. The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of equity instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability. The Company had 5,502 warrant shares issued in its September 2012 public offering that required classification as a liability due to certain registration rights and listing requirements in the agreements. These warrants expired in September 2017 with no value. The Company has also issued shares of restricted stock which vest over future periods. The value of these shares is required to be adjusted over the vesting period. See Note 6

for additional information related to these shares.

Fair Value of Financial Instruments
The Company's financial instruments are recorded at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect certain market assumptions. There are three levels of inputs that may be used to measure fair value:

- Level 1 – Valuation based on quoted market prices in active markets for identical assets and liabilities.
- Level 2 – Valuation based on quoted market prices for similar assets and liabilities in active markets.

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- Level 3 – Valuation based on unobservable inputs that are supported by little or no market activity, therefore requiring management’s best estimate of what market participants would use as fair value.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The Company does not have any Level 1 or 2 financial assets or liabilities. The Company’s Level 3 financial liabilities measured at fair value consisted of its acquisition cost liability (see Note 2) as of September 30, 2018 and 2017. Significant unobservable inputs used in the fair value measurement of the warrants include the estimated term and risk-adjusted interest rates. In developing its credit risk assumption used in the fair value of warrants, the Company considered publicly available bond rates and US Treasury Yields. However, since the Company does not have a formal credit-standing, management estimated its standing among various reported levels and grades for use in the model. During all periods, management estimated that the Company's standing was in the speculative to high-risk grades (BB- to CCC in the Standard and Poor's Rating). Significant increases or decreases in the estimated remaining period to exercise or the risk-adjusted interest rate could result in a significantly lower or higher fair value measurement.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable, unearned revenue, and accrued expenses. Unless otherwise disclosed, the fair value of the Company’s long-term debt obligations approximate their carrying value based upon current rates available to the Company.

Stock-Based Compensation

Stock-based compensation cost related to stock options granted under the 2011 Equity Incentive Plan and 2011 B Equity Incentive Plan (together, the “2011 Equity Incentive Plans”) (see Note 6) is measured at the grant date, based on the fair value of the award, and is recognized as a straight-lined expense over the employee’s requisite service period. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The Company estimates the fair value of its common stock using the closing stock price of its common stock on the date of the grant. The Company estimates the volatility of its common stock at the date of grant based on the volatility of comparable peer companies that are publicly traded and have had a longer trading history than itself. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. The Company uses the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future.

The Company used the following assumptions for options granted under the 2011 Equity Incentive Plans during the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		Nine Months Ended	
2011 Equity Incentive Plans Assumptions	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Expected term	6 years	6 years	6 years	6 years
Weighted average volatility	65.65%	43.08%	63.40%	43.49%
Weighted average risk free interest rate	2.82%	1.91%	2.77%	1.98%
Expected dividends	—	—	—	—

The Company estimates forfeitures when recognizing compensation expense and this estimate of forfeitures is adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and a revised amount of unamortized compensation expense to be recognized in future periods. Weighted average expected forfeiture rates were 8.23% and 6.79% during the three months ended September 30, 2018 and 2017, respectively. Weighted average expected forfeiture rates were 10.01% and 9.01% during the nine months ended September 30, 2018 and 2017, respectively.

Non-Employee Stock-Based Payments

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC 505, “Equity-Based Payments to Non-Employees.” The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. The fair value of equity instruments issued to consultants that vest immediately is expensed when issued. The fair value of equity instruments issued to consultants that have future vesting and are subject to forfeiture if performance does not occur is recognized as expense over the vesting period.

Fair values for the unvested portion of issued instruments are adjusted each reporting period. The change in fair value is recorded in the accompanying consolidated statements of operations. Stock-based payments related to non-employees is accounted for based on the fair value of the related stock or the fair value of the services, whichever is more readily determinable.

Segment Information
Prior to its merger with TapInfluence, the Company managed its operations as one segment for reporting purposes and evaluated operations and made business decisions based on consolidated results. Effective in the quarter ended September 30, 2018, and primarily as a result of the merger with TapInfluence, the Company has significantly expanded its operations related to license fees and marketplace spend fees. As a result, Company management is now actively evaluating operations under two reportable business segments (see Note 9).

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications
Certain items have been reclassified in the 2017 financial statements to conform to the 2018 presentation. In the Statements of Cash Flows, the Company has reclassified payments on acquisition liabilities as financing activities rather than as a change in accrued expenses in operating activities.

Recent Accounting Pronouncements
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Since the issuance of the original standard, the FASB has issued a subsequent update, ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842, which provides a practical expedient for land easements. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact that this ASU will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). To address concerns over the cost and complexity of the two-step goodwill impairment test, the new standard removes the requirement for the second step of the goodwill impairment test for certain entities. An entity may 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. The new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for testing dates after January 1, 2017. The Company is currently evaluating the impact that ASU 2017-04 will have on its consolidated financial statements.

NOTE 2. BUSINESS COMBINATIONS

TapInfluence

On July 26, 2018, IZEA completed its merger with TapInfluence, Inc., pursuant to the terms of the Agreement and Plan of Merger, dated as of July 11, 2018, by and among IZEA, IZEA Merger Sub, Inc., TapInfluence, certain stockholders of TapInfluence and the stockholders' representative, as amended by Amendment No. 1 thereto, dated as of July 20, 2018 (the "Merger Agreement"). The merger was consummated, in part, to further consolidate the influencer marketing industry for IZEA, and for IZEA to obtain benefits from the acquisition of the TapInfluence technology platform and existing customer base, particularly from TapInfluence's self-service customers.

At closing, IZEA paid to TapInfluence stockholders the sum of $1,500,000 in cash, less an estimated closing working capital adjustment of $181,633, along with other adjustments as defined in the Merger Agreement, and issued 1,150,000 shares of IZEA's common stock valued at $1,759,500 based on the $1.53 closing market price of IZEA's common stock on July 26, 2018. IZEA has agreed to pay TapInfluence stockholders an additional $4,500,000 in the form of cash, common stock or a combination thereof, at IZEA's option, in two installments - $1,000,000 six months after the closing date of the merger and $3,500,000 twelve months

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after the closing date of the merger. Stock issuances, if any, will be determined based on the 30 trading day volume-weighted average price per share of IZEA's common stock prior to the payment date. Future cash payments and stock issuances may be withheld from the six month or twelve month payment for post-closing working capital adjustments and to satisfy indemnifiable claims made by IZEA with respect to any misrepresentations or breaches of warranty under the Merger Agreement by TapInfluence or the stockholders of TapInfluence within 12 months after the closing date of the merger. Following the closing of the merger, IZEA calculated the final working capital as of the closing date to be $297,049. Therefore, the purchase price was reduced by an additional $115,416 that will be deducted from the six-month installment payment.

Purchase Price and Acquisition Costs Payable

	Estimated Gross Purchase Consideration 7/26/2018	Estimated Initial Present and Fair Value 7/26/2018	Estimated Remaining Present and Fair Value 9/30/2018
Cash paid at closing (a)	$ 1,500,000	$ 1,500,000	$ —
Stock paid at closing (a)	1,759,500	1,759,500	—
Purchase price adjustment (b)	(439,610)	(555,026)	
First deferred purchase price installment (c)	1,000,000	970,576	980,384
Second deferred purchase price installment (c)	3,500,000	3,271,028	3,309,190
Total estimated consideration	$ 7,319,890	$ 6,946,078	$ 4,289,574
Current portion of acquisition costs payable			$ 4,174,158
Long-term portion of acquisition costs payable			—
Total acquisition costs payable			$ 4,174,158

(a) The aggregate consideration paid at closing for the acquisition of TapInfluence consisted of a cash payment of $1,500,000 and the issuance of 1,150,000 shares of IZEA common stock valued at $1,759,500, or $1.53 per share.

(b) Per the terms of the Merger Agreement, the initial cash payment due at closing of $1,500,000 was to be adjusted as follows: reduced for seller transaction expenses and closing date indebtedness, increased by closing date cash and cash equivalents of TapInfluence, and reduced or increased by an estimated working capital amount. These adjustments resulted in a net reduction in the purchase price of $439,610, which included a negative estimated working capital adjustment of $181,633.

(c) Aggregate future consideration consists of additional payments totaling $4,500,000, less any remaining adjustment related to the final working capital adjustment calculation. The payments will be made in the form of cash, common stock or a combination thereof, at IZEA's option, in two installments - $1,000,000 six months after the closing date of the merger and $3,500,000 twelve months after the closing date of the merger. Stock issuances, if any, will be determined based on the 30 trading day volume-weighted average price per share of IZEA's common stock prior to the payment date. Future cash payments and stock issuances may be withheld from the six month or twelve month payment for post closing working capital adjustments and to satisfy indemnifiable claims made by IZEA with respect to any misrepresentations or breaches of warranty under the Merger Agreement by TapInfluence or the stockholders of TapInfluence within 12 months after the closing date of the merger. Post closing, IZEA calculated the final working capital as of the closing date as a negative $297,049, which was $115,416 lower than the original estimate of negative $181,633. Therefore, the purchase price was reduced by an additional $115,416 that will be deducted from the six-month installment payment.

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The following table summarizes the preliminary amounts of net assets acquired at the merger date:

	Estimated Approximate Fair Value 7/26/2018
Current assets	$ 4,337,334
Property and equipment	39,089
Identifiable intangible assets	3,263,000
Goodwill	4,711,999
Current liabilities	(4,071,727)
Long-term debt	(1,333,617)
Total net assets acquired	6,946,078
Less: cash acquired	(1,071,656)
Net purchase consideration	$ 5,874,422

For the three and nine months ended September 30, 2018, $797,244 of the Company's consolidated revenue was associated with TapInfluence operations. The Company is unable to determine net loss specifically related to TapInfluence operations as the majority of operational resources were shared with IZEA.

The following unaudited pro forma summary presents consolidated information of IZEA Worldwide, Inc. as if the business combination with TapInfluence, Inc. had occurred on January 1, 2017:

	Pro Forma Nine Months Ended 9/30/2018	Pro Forma Nine Months Ended 9/30/2017
Pro forma revenue	$ 16,344,003	$ 21,960,003
Pro forma cost of revenue	$ 6,867,048	$ 8,784,895
Pro forma gross profit	$ 9,476,955	$ 13,175,108
Pro forma net loss prior to adjustments	$ (6,377,521)	$ (7,418,941)
Pro forma adjustment to net loss:		
Amortization of acquired identifiable intangible assets	(583,722)	(776,750)
Acquisition-related expenses	105,146	(149,625)
Pro forma net loss combined	$ (6,856,097)	$ (8,345,316)

The business combination was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. As the acquirer for accounting purposes, IZEA is in the process of estimating the fair value of TapInfluence’s assets acquired and liabilities assumed and conformed the accounting policies of TapInfluence to its own accounting policies. IZEA anticipates that all the information needed to identify and measure values assigned to the assets acquired and liabilities assumed will be obtained and finalized during the one-year measurement period following the merger date. Differences between these preliminary estimates and the final purchase price accounting may occur, and these differences could have a material impact on the Company's consolidated financial statements.

ZenContent
On July 31, 2016, the Company purchased all of the outstanding shares of capital stock of ZenContent pursuant to the terms of a Stock Purchase Agreement, by and among IZEA, ZenContent and the stockholders of ZenContent (the “ZenContent Stock Purchase Agreement”) for a maximum purchase price to be paid over the next three years of

$4,500,000. Upon closing the Company paid a cash payment of $400,000 and issued 86,207 shares of the Company's common stock valued at $600,000. The ZenContent Stock Purchase Agreement also requires (i) three equal annual installment payments totaling $1,000,000, subject to a working capital adjustment, commencing 12 months following the closing and (ii) contingent performance payments of up to an aggregate of $2,500,000 over the three 12-month periods following the closing, based upon ZenContent achieving certain minimum revenue thresholds. Of these payments, 33% of each such annual installment or contingent performance payment will be in the form of

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cash and the remainder of such payment will be in the form of either cash or additional shares of the Company's common stock (determined at the Company's option). Additionally, these payments were subject to a downward adjustment of up to 30% if Brianna DeMike, ZenContent's co-founder, was terminated by IZEA for cause or she terminated her employment without good reason.

The Company amended the ZenContent Stock Purchase Agreement on October 21, 2016, to clarify definitions surrounding contingent performance payments and to provide for a contingent cash commission of 1% on certain IZEA legacy clients for which the Company used ZenContent technology to produce content for its Managed Services in the future. The Company entered into a second amendment to the ZenContent Stock Purchase Agreement on July 17, 2018 to further amend the terms of the contingent performance payments. The parties agreed to pay approximately $9,818 related to the historical 1% commission on IZEA legacy client calculations and to fix the amount payable for any further contingent performance payments at $90,000 due as $45,000 in cash on November 1, 2018 and as $45,000 in cash or stock, at the Company's option on November 1, 2019. In return for the fixed valuation of the contingent performance payments, the Company waived its rights to reduce the future guaranteed annual and contingent performance payments in the event that ZenContent's co-founder terminated her employment, after which she terminated her employment with the Company on July 20, 2018.

Purchase Price and Acquisition Costs Payable

	Estimated Gross Purchase Consideration	Initial Present and Fair Value	Remaining Present and Fair Value	Remaining Present and Fair Value
	7/31/2016	7/31/2016	12/31/2017	9/30/2018
Cash paid at closing (a)	$ 400,000	$ 400,000	$ —	$ —
Stock paid at closing (a)	600,000	600,000	—	—
Guaranteed purchase price (b)	933,565	566,547	606,413	316,772
Contingent performance payments (c)	2,500,000	230,000	744,510	88,055
Total estimated consideration	$ 4,433,565	$ 1,796,547	$ 1,350,923	$ 404,827
Current portion of acquisition costs payable			$ 741,155	$ 361,772
Long-term portion of acquisition costs payable			609,768	43,055
Total acquisition costs payable			$ 1,350,923	$ 404,827

(a) The aggregate consideration paid at closing for the acquisition of ZenContent consisted of a cash payment of $400,000 and the issuance of 86,207 shares of IZEA common stock valued at $600,000.

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(b) Aggregate deferred consideration consists of (i) three equal annual installment payments totaling $1,000,000, commencing 12 months following the closing, less a reduction of $66,435 due to a customary closing date working capital adjustment ("guaranteed purchase price"), and (ii) contingent performance payments up to an aggregate of $2,500,000 over the three 12-month periods following the closing. These payments were subject to a downward adjustment up to 30% if ZenContent's co-founder was terminated by IZEA for cause or if she terminated her employment without good reason. As a result, the Company initially reduced its acquisition cost liability by $300,000 to be accrued as compensation expense over the three-year term rather than allocated to the initial purchase price in accordance with ASC 805-10-55-25. Compensation expense added to the guaranteed acquisition costs payable and recorded as general and administrative expense in the Company's consolidated statement of operations was $28,125 and $151,042 for the nine months ended September 30, 2018 and 2017, respectively. Compensation expense added to the guaranteed acquisition costs payable and recorded as general and administrative expense in the Company's consolidated statement of operations was $5,209 and $28,125 for the three months ended September 30, 2018 and 2017, respectively. The initial guaranteed purchase price consideration was discounted to present value using the Company's borrowing rate of prime plus 2% (5.5% on July 31, 2016). Interest expense imputed on the guaranteed acquisition costs payable in the accompanying consolidated statement of operations was $15,567 and $22,616 for the nine months ended September 30, 2018 and 2017, respectively. Interest expense imputed on the guaranteed acquisition costs payable in the accompanying consolidated statement of operations was $3,872 and $6,572 for the three months ended September 30, 2018 and 2017. On July 31, 2017, the Company paid $266,898 in cash for the first annual installment of $333,333 less $66,435 in working capital adjustments. On July 31, 2018, the Company paid an additional $111,111 in cash and $222,222 using 98,765 shares of our common stock valued at $2.25 per share using a thirty (30) trading day volume-weighted average closing price as reported by the NASDAQ Capital Market prior to the issuance date, for the second annual installment.

(c) The contingent performance payments were subject to ZenContent achieving certain minimum revenue thresholds over 36 months. ZenContent was required to meet minimum revenues of $2.5 million, $3.5 million and $4.5 million in the first, second and third respective 12-month periods following the closing in order to receive any portion of the contingent performance payments. Of these payments, 33% of each such annual installment or contingent performance payment was to be in the form of cash and the remainder of such payment was to be in the form of either cash or additional shares of IZEA common stock, at the Company's option. The value of the Company's common stock would be valued using a thirty (30) trading day volume-weighted average closing price as reported by the NASDAQ Capital Market. These contingent performance payments were subject to downward adjustment of up to 30% if ZenContent's co-founder was terminated by IZEA for cause or she terminated her employment without good reason. On July 31, 2016, the Company initially determined the fair value of the $2,500,000 contingent payments to be $230,000. The fair value of the contingent performance payments is required to be revalued each quarter and is calculated using a Monte-Carlo simulation to simulate revenue over the future periods. Since the contingent consideration has an option like structure, a risk-neutral framework is considered appropriate for the valuation. The Company started with a risk-adjusted measure of forecasted revenue (using a risk-adjusted discount rate of 17%) and assumed it will follow geometric Brownian motion to simulate the revenue at future dates. Once the initial revenue was estimated based off of projections, payout was calculated for each year and present valued to incorporate the credit risk associated with these payments. The Company's fair value conclusion was based on the average payment from 250,000 simulation trials. The volatility used for the simulation was 45%. The interest rate used for the simulation was the Company's current borrowing rate of prime plus 2% at the time of valuation. Due to the adjustment in payments pursuant to the second amendment to the ZenContent Stock Purchase Agreement, the Company revalued its estimate of the contingent performance payment as of September 30, 2018 to be $99,818 and determined that current fair value of the contingent performance payments was $88,055 compared to $744,510 as of December 31, 2017. The change in the estimated fair value of contingent performance payable resulted in a $646,637 decrease in general and administrative expense in the Company's consolidated statement of operations during the nine months ended September 30, 2018. Of this amount, $160,890 was allocated to compensation expense and $485,747 was allocated as a change in the fair value of the contingent performance payments. The Company revalued its estimate of the contingent performance payment as of September 30, 2017 based on actual results and projections at the time and determined that current fair value of the contingent performance payments was $342,861 compared to $324,000 as of December 31, 2016. The change in the estimated fair value of contingent performance payable resulted in a $184,444 increase in general and administrative expense in the Company's consolidated statement of operations during the nine months ended September 30, 2017. Of this amount, $122,444 was allocated to compensation expense and a gain of $62,000 was allocated as a change in the fair value of the contingent performance payments.

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NOTE 3. INTANGIBLE ASSETS

The identifiable intangible assets consists of the following assets:

	Balance	Accumulated Amortization	Balance	Accumulated Amortization	Useful Life (in years)
	September 30, 2018		December 31, 2017		
Content provider networks	$ 160,000	$ 160,000	$ 160,000	$ 122,083	1
Trade names	87,000	57,834	52,000	52,000	1
Developed technology	1,130,000	339,667	530,000	240,167	3
Self-service content customers	2,810,000	354,444	210,000	204,167	5
Managed content customers	2,140,000	2,042,778	2,140,000	1,905,555	3
Domains	166,469	91,558	166,469	66,588	5
Embedded non-compete provision	28,000	2,333	—	—	1
Total identifiable intangible assets	$ 6,521,469	$ 3,048,614	$ 3,258,469	$ 2,590,560	

Total identifiable intangible assets from the purchase price allocations from the Company's acquisitions and other acquired assets net of accumulated amortization thereon consists of the following:

	September 30, 2018	December 31, 2017
Ebyline Intangible Assets	$ 2,370,000	$ 2,370,000
ZenContent Intangible Assets	722,000	722,000
TapInfluence Intangible Assets (preliminary)	3,263,000	—
Domains	166,469	166,469
Total Intangible Assets	6,521,469	3,258,469
Accumulated amortization	(3,048,614)	(2,590,560)
Intangible Assets, net	$ 3,472,855	$ 667,909

The Company is amortizing the identifiable intangible assets over a weighted average period of three years. Amortization expense recorded in depreciation and amortization expense in the accompanying consolidated statements of operations was $242,018 and $247,907 for the three months ended September 30, 2018 and 2017, respectively. Amortization expense recorded in depreciation and amortization expense in the accompanying consolidated statements of operations was $458,054 and $747,720 for the nine months ended September 30, 2018 and 2017, respectively. The portion of this amortization expense specifically related to the costs of acquired technology for its platforms that is presented separately from cost of services was $99,500 for the nine months ended September 30, 2018 and 2017. The portion of this amortization expense specifically related to the costs of acquired technology for its platforms that is presented separately from cost of services was $46,500 for the three months ended September 30, 2018 and 2017.

As of September 30, 2018, future estimated amortization expense related to identifiable intangible assets over the next five years is set forth in the following schedule:

Year ending December 31:	Amortization Expense
2018 (three months remaining)	$ 322,907
2019	1,228,432
2020	1,079,126
2021	652,390
2022	120,000
2023	70,000

Total	$ 3,472,855

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NOTE 4. SOFTWARE DEVELOPMENT COSTS

Software development costs consists of the following:

	September 30, 2018	December 31, 2017
Software development costs	$ 2,048,278	$ 1,561,351
Less accumulated depreciation and amortization	(814,290)	(593,424)
Software development costs, net	$ 1,233,988	$ 967,927

The Company developed its web-based advertising and content exchange platform, IZEAx, to enable native advertising campaigns on a greater scale. The Company continues to add new features and additional functionality to IZEAx to facilitate the contracting, workflow, and delivery of direct content as well as provide for invoicing, collaborating, and direct payments for the Company's self-service customers. Research and planning phase costs are expensed as incurred. Costs incurred in the application and infrastructure development stage, including significant enhancements and upgrades, are capitalized. These costs include personnel and related employee benefits expenses for employees or consultants who are directly associated with and who devote time to software projects, and external direct costs of materials obtained in developing the software. We incurred and capitalized software development costs of $486,927 and $85,460 during the nine months ended September 30, 2018 and 2017, respectively. As a result, the Company has capitalized a total of $2,048,278 in direct materials, consulting, payroll and benefit costs to its internal use software development costs in the consolidated balance sheet as of September 30, 2018. The Company amortizes its software development costs, upon initial release of the software or additional features, on a straight-line basis over the estimated the useful life of five years, which is consistent with the amount of time its legacy platforms were in service.

Amortization expense on software development costs that is presented separately from cost of services and recorded in depreciation and amortization expense in the accompanying consolidated statements of operations was $73,622 and $76,890 for the three months ended September 30, 2018 and 2017, respectively. Amortization expense on software development costs that is presented separately from cost of services and recorded in depreciation and amortization expense in the accompanying consolidated statements of operations was $220,866 and $184,514 for the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, future estimated amortization expense related to software development costs over the next five years is set forth in the following schedule:

Year ending December 31:	Software Amortization Expense
2018 (three months remaining)	$ 73,622
2019	324,324
2020	290,996
2021	249,601
2022	180,276
Thereafter	115,169
	$ 1,233,988

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NOTE 5. COMMITMENTS & CONTINGENCIES

Credit Agreement
The Company has a secured credit facility agreement with Western Alliance Bank, the parent company of Bridge Bank, N.A. of San Jose, California, which it obtained on March 1, 2013 and expanded on April 13, 2015. Effective August 30, 2018, as a result of IZEA's merger with TapInfluence, Inc., the Company entered into a Business Financing Modification Agreement and Consent with Western Alliance Bank to add TapInfluence, Inc. as an additional borrower on the credit facility. Pursuant to this agreement, the Company may submit requests for funding up to 80% of its eligible accounts receivable up to a maximum credit limit of $5 million. This agreement is secured by the Company's accounts receivable and substantially all of the Company's other assets. The agreement renews annually and requires the Company to pay an annual facility fee of $20,000 (0.4% of the credit limit) and an annual due diligence fee of $1,000. Interest accrued on the advances at the rate of prime plus 2% per annum through August 29, 2018, at which time the rate was amended to 1.5% per annum in conjunction with the August 30, 2018 modification agreement. The default rate of interest is prime plus 7%. The Company had $1,733,420 and $500,550 outstanding under this line of credit agreement as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, the Company had a net accounts receivable balance of $6,811,029. Assuming that all of the Company's accounts receivable balance was eligible for funding, it had $3,266,580 in remaining available credit under the agreement as of September 30, 2018.

The annual fees are capitalized in the Company's consolidated balance sheet within other current assets and are amortized to interest expense over one year. The Company amortized $15,750 of the annual costs through interest expense during the nine months ended September 30, 2018 and 2017, respectively. The Company amortized $5,250 of the annual costs through interest expense during the three months ended September 30, 2018 and 2017, respectively. The remaining value of the capitalized loan costs related to this agreement as of September 30, 2018 is $12,250. This amount will be amortized to interest expense over the next ten months.

Litigation
On April 4, 2018, a securities lawsuit, Julian Perez v. IZEA, Inc., et al., case number 2:18-cv-02784-SVW-GJS was instituted in the U.S. District Court for the Central District of California against the Company and certain of its executive officers on behalf of certain purchasers of the Company’s common stock. The plaintiffs seek to recover damages for investors under federal securities laws. The Company believes that the plaintiffs’ allegations are without merit and intends to vigorously defend against the claims.
On July 3, 2018, a shareholder derivative lawsuit, Korene Stuart v. Edward H. Murphy et al., case number A-18-777135-C was instituted in the Eighth Judicial District Court of the State of Nevada, Clark County against certain executive officers and members of the Board of Directors for IZEA. IZEA has been named as a nominal defendant. The plaintiff seeks to recover damages on behalf of the company for purported breaches of the individual defendants’ fiduciary duties as directors and/or officers of IZEA, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets in violation of state common law. The individual defendants and the Company believe that the plaintiff’s allegations are without merit and intend to vigorously defend against the claims.

The Company had determined that it is probable that amounts payable by the Company in respect of the litigation proceedings described above and other litigation proceedings involving the Company will be in excess of the maximum retention amount under its insurance policy of $500,000. As a result, the Company has recorded a liability reflecting the payment of such amount, less related legal fees incurred to date of approximately $62,000 that the Company expects to count against the retention amount.

From time to time, the Company may become involved in various lawsuits and legal proceedings that arise in the ordinary course of the Company's business. Litigation is, however, subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the Company's business. The Company is currently not aware of any other legal proceedings or claims that it believes would or could have, individually or in the aggregate, a material adverse effect on its operations or financial position.

NOTE 6. STOCKHOLDERS' EQUITY

Authorized Shares

The Company has 200,000,000 authorized shares of common stock and 10,000,000 authorized shares of preferred stock, each with a par value of $0.0001 per share.

Stock Issued for Acquisitions

On January 30, 2017, the Company issued 200,542 shares of its common stock to satisfy the final annual guaranteed purchase price payment of $938,532 per the terms of a Stock Purchase Agreement dated as of January 27, 2015, by and among IZEA,

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Ebyline and the stockholders of Ebyline (the “Ebyline Stock Purchase Agreement”). The Company recorded a $10,491 gain on the settlement of the acquisition costs payable for the nine months ended September 30, 2017 in the accompanying consolidated statements of operations as a result of the difference between the market price of the stock on the settlement date and the 30-day average price of the stock required by the Ebyline Stock Purchase Agreement. The guaranteed purchase price consideration was originally recorded on the Company's balance sheet discounted to present value using the Company's borrowing rate of prime plus 2%. Interest expense imputed on the remaining acquisition costs payable was $3,804 in the accompanying consolidated statements of operations for the nine months ended September 30, 2017 prior to the final guaranteed payment made on January 30, 2017.

On July 26, 2018, pursuant to its merger agreement with TapInfluence (see Note 2) the Company issued 1,150,000 shares of IZEA's common stock valued at $1,759,500 based on the $1.53 closing market price of IZEA's common stock on July 26, 2018.

Underwritten Public Offerings of Common Stock

July 2, 2018 Public Offering

On July 2, 2018, the Company completed an underwritten public offering of 3,556,000 shares of the Company's common stock at a public offering price of $1.00 per share. The net proceeds for all shares sold by us in the public offering were approximately $3.1 million after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company totaling approximately $418,000. Mr. Edward Murphy, the Company's Chief Executive Officer and a Company director, Mr. Brian Brady, a Company director, and Mr. Lindsay Gardner, a Company director participated in the public offering and purchased 100,000, 500,000 and 20,000 shares of stock, respectively. The Company intends to use the net proceeds from the offering to finance the costs of acquiring competitive and complementary companies, technologies and assets as part of its growth strategy, including the merger with TapInfluence on July 25, 2018, and for working capital and general corporate purposes.

September 21, 2018 Public Offering

On September 21, 2018, the Company completed an underwritten public offering of 1,407,333 shares of the Company's common stock at a public offering price of $1.50 per share. The net proceeds for all shares sold by us in the public offering were approximately $1.8 million after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company totaling approximately $290,000. Mr. Edward Murphy, the Company's Chief Executive Officer and a Company director, participated in the public offering and purchased 3,000 shares of stock. The Company intends to use the net proceeds from the offering to finance the costs of acquiring competitive and complementary companies, technologies and assets as part of its growth strategy, and for working capital and general corporate purposes.

The above offerings were made pursuant to a shelf registration statement on Form S-3 (File No. 333-212247) filed with the U.S. Securities and Exchange Commission (the “SEC”) on June 24, 2016, which became effective on June 30, 2016.

Stock Issued for Services
During the twelve months ended December 31, 2017, the Company issued its five independent directors a total of 41,770 shares of restricted common stock initially valued at $125,000 for their annual service as directors of the Company. The stock vested in equal monthly installments for the period issued between January and December 2017. On February 12, 2017, the Company issued 7,109 shares valued at $30,000 as compensation for services a contractor provided.

The Company issued 2,812 shares and 7,543 shares of restricted stock on August 14, 2017 and November 9, 2017, respectively, to Mr. Edward Murphy, its Chief Executive Officer, for amounts owed on his second and third quarter performance bonus. The stock was initially valued at $36,411 and vests in equal monthly installments over 48 months from issuance. The Company issued 662 shares and 1,257 shares of restricted stock on August 14, 2017 and November 9, 2017, respectively, to Mr. Ryan Schram, its Chief Operating Officer, for amounts owed on his second and third quarter performance bonus. The stock was initially valued at $6,446 and vests in equal monthly installments over 48 months from issuance.

During the nine months ended September 30, 2018, the Company issued its five independent directors a total of 30,265 shares of restricted common stock initially valued at $125,000 for their annual service as directors of the Company. The stock vests in equal monthly installments from January through December 2018.

On January 11, 2018, the Company issued seventeen employees a total of 55,000 shares of restricted common stock initially valued at $303,600 as incentive compensation for their continued future service. Of these 55,000 shares, 10,000 shares were issued to Ms. LeAnn Hitchcock, the Company's then-current Chief Financial Officer, and 5,000 shares were issued to Mr. Schram. The stock vests over two years in equal quarterly installments from January 2018 through December 2019.

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The Company issued 21,628 shares and 3,870 shares of restricted stock on May 3, 2018 to Mr. Murphy and Mr. Schram, respectively, related to amounts owed for their first quarter performance bonus. The stock was valued at $46,715 and $8,360, respectively, and vests in equal monthly installments over 48 months from issuance. On May 25, 2018, the Company issued 5,000 shares of restricted common stock valued at $7,650 to an employee as incentive compensation for future services vesting in two equal annual installments in May 2019 and 2020.

The following table contains summarized information about nonvested restricted stock outstanding during the year ended December 31, 2017 and the nine months ended September 30, 2018:

Restricted Stock	Common Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Years to Vest
Nonvested at December 31, 2016	—	$ —	
Granted	61,153	$ 3.24	
Vested	(49,354)	$ 3.72	
Forfeited	—	$ —	
Nonvested at December 31, 2017	11,799	$ 4.52	3.75
Granted	115,763	$ 4.24	
Vested	(47,023)	$ 4.56	
Forfeited	—	$ —	
Nonvested at September 30, 2018	80,539	$ 3.95	1.8

Total expense recognized on restricted stock issued for services to non-employees during the three months ended September 30, 2018 and 2017 was $31,244 and $60,074, respectively. Total expense recognized on restricted stock issued for services to non-employees during the nine months ended September 30, 2018 and 2017 was $93,734 and $143,536, respectively. Total stock-based compensation expense recognized on restricted stock issued to employees during the three and nine months ended September 30, 2018 was $38,128 and $121,994, respectively. There was no stock-based compensation expense recognized on restricted stock issued to employees during the three and nine months ended September 30, 2017. The fair value of the services to non-employees is based on the value of the Company's common stock as it vests over the term of service, which may be different that the value of the stock upon issuance. The change between the Company's stock price upon issuance and the Company's stock price upon the date of vesting, results in a change in the fair value of derivatives during the period. The Company recognized a loss of $11,794 and $36,122 as a change in the fair value of derivatives during the nine months ended September 30, 2018 and 2017, respectively. Future compensation related to issued, but nonvested restricted stock awards as of September 30, 2018 is $317,134, and it is included in prepaid expenses in the accompanying consolidated balance sheets. This value is estimated to be recognized over the weighted-average vesting period of approximately 1.8 years.

Employee Stock Purchase Plan
On April 16, 2014, stockholders holding a majority of the Company's outstanding shares of common stock, upon previous recommendation and approval of the Board, adopted the IZEA Worldwide, Inc. 2014 Employee Stock Purchase Plan (the “ESPP”) and reserved 75,000 shares of the Company's common stock for issuance thereunder. Any employee regularly employed by the Company for 90 days or more on a full-time or part-time basis (20 hours or more per week on a regular schedule) is eligible to participate in the ESPP. The ESPP operates in successive six months offering periods commencing at the beginning of each fiscal year half. Each eligible employee who elects to participate may purchase up to 10% of their annual compensation in common stock not to exceed $21,250 annually or

1,000 shares per offering period. The purchase price will be the lower of (i) 85% of the fair market value of a share of common stock on the first trading day of the offering period or (ii) 85% of the fair market value of a share of common stock on the last trading day of the offering period. The ESPP will continue until January 1, 2024, unless otherwise terminated by the Board. As of September 30, 2018, the Company had 22,405 remaining shares of common stock available for future grants under the ESPP. Employees paid $9,035 to purchase 11,189 shares of common stock during the nine months ended September 30, 2018.

Stock Options

In May 2011, the Company's Board of Directors (the “Board”) adopted the 2011 Equity Incentive Plan of IZEA Worldwide, Inc. (the “May 2011 Plan”). At the Company's 2017 Annual Meeting of Stockholders held on June 21, 2017, the stockholders approved the amendment and restatement of the May 2011 Plan which increased the number of shares of common stock available for issuance under the May 2011 Plan by 500,000 shares. The amended May 2011 Plan allows the Company to grant options to purchase up to 1,500,000 shares as an incentive for its employees and consultants. As of September 30, 2018, the Company had 250,214 shares of common stock available for future grants under the May 2011 Plan.

On August 22, 2011, the Company adopted the 2011 B Equity Incentive Plan (the "August 2011 Plan") reserving 4,375 shares of common stock for issuance under the August 2011 Plan. As of September 30, 2018, the Company had 1,875 shares of common stock available for future grants under the August 2011 Plan.

Under both the May 2011 Plan and the August 2011 Plan (together, the "2011 Equity Incentive Plans"), the Board determines the exercise price to be paid for the shares, the period within which each option may be exercised, and the terms and conditions of each option. The exercise price of the incentive and non-qualified stock options may not be less than 100% of the fair market value per share of the Company's common stock on the grant date. If an individual owns stock representing more than 10% of the outstanding shares, the price of each share of an incentive stock option must be equal to or exceed 110% of fair market value. Unless otherwise determined by the Board at the time of grant, the purchase price is set at the fair market value of the Company's common stock on the grant date, the term is set at ten years and the options typically vest on a straight-line basis over the requisite service period as follows: 25% of options shall vest one year from the date of grant and the remaining options shall vest monthly, in equal increments over the following three years. The Company issues new shares to the optionee for any stock awards or options exercised pursuant to its 2011 Equity Incentive Plans.

A summary of option activity under the 2011 Equity Incentive Plans for the year ended December 31, 2017 and the nine months ended September 30, 2018 is presented below:

Options Outstanding	Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Outstanding at December 31, 2016	959,864	$ 8.11	6.4
Granted	141,246	$ 3.49	
Exercised	—	$ —	
Forfeited	(51,607)	$ 38.86	
Outstanding at December 31, 2017	1,049,503	$ 5.97	6.0
Granted	98,359	$ 1.71	
Exercised	—	$ —	
Forfeited	(81,813)	$ 5.91	
Outstanding at September 30, 2018	1,066,049	$ 5.59	5.7
Exercisable at September 30, 2018	788,036	$ 6.24	4.5

During the three and nine months ended September 30, 2018 and 2017 no options were exercised. The fair value of the Company's common stock on September 30, 2018 was $1.59 per share. The intrinsic value on outstanding options as of September 30, 2018 was $31,009. The intrinsic value on exercisable options as of September 30, 2018 was $466.

A summary of the nonvested stock option activity under the 2011 Equity Incentive Plans for the year ended December 31, 2017 and the nine months ended September 30, 2018 is presented below:

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Nonvested Options	Common Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Years to Vest
Nonvested at December 31, 2016	414,306	$ 3.60	2.6
Granted	141,246	$ 1.76	
Vested	(205,469)	$ 3.36	
Forfeited	(27,006)	$ 3.12	
Nonvested at December 31, 2017	323,077	$ 2.64	2.7
Granted	98,359	$ 0.96	
Vested	(106,021)	$ 2.88	
Forfeited	(37,402)	$ 2.96	
Nonvested at September 30, 2018	278,013	$ 1.92	2.8

Stock-based compensation cost related to stock options granted under the 2011 Equity Incentive Plans is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee’s requisite service period. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes option-pricing model that uses the assumptions stated in Note 1.

Total stock-based compensation expense recognized on stock option issuances, including the restricted stock issuance expense disclosed above, during the three months ended September 30, 2018 and 2017 was $118,410 and $182,796, respectively. Stock-based compensation (income) expense was recorded as $3,786 to cost of revenue, $15,097 to sales and marketing, and $99,527 to general and administrative expense in the Company's consolidated statement of operations during the three months ended September 30, 2018. Stock-based compensation expense was recorded as $14,837 to sales and marketing, and $167,959 to general and administrative expense in the Company's consolidated statement of operations during the three months ended September 30, 2017. Future compensation related to nonvested awards as of September 30, 2018 expected to vest of $461,976 is estimated to be recognized over the weighted-average vesting period of approximately 2.8 years.

Total stock-based compensation expense recognized on stock option issuances, including the restricted stock issuance expense disclosed above, during the nine months ended September 30, 2018 and 2017 was $468,042 and $509,642, respectively. Stock-based compensation expense was recorded as $14,510 to cost of revenue, $60,396 to sales and marketing, and $393,136 to general and administrative expense in the Company's consolidated statement of operations during the nine months ended September 30, 2018. Stock-based compensation expense was recorded as $45,331 to sales and marketing, and $464,311 to general and administrative expense in the Company's consolidated statement of operations during the nine months ended September 30, 2017.

NOTE 7. LOSS PER COMMON SHARE

Basic loss per common share is computed by dividing the net income or loss by the basic weighted-average number of shares of common stock outstanding during each period presented. Diluted loss per common share is computed by dividing the net income or loss by the total of the basic weighted-average number of shares of common stock outstanding plus the additional dilutive securities that could be exercised or converted into common shares during each period presented less the amount of shares that could be repurchased using the proceeds from the exercises.

	Three Months Ended	Nine Months Ended

	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net loss	$(1,332,829)	$ (558,805)	$(5,025,704)	$(4,724,623)
Weighted average shares outstanding - basic and diluted	10,365,750	5,702,297	7,351,827	5,659,423
Basic and diluted loss per common share	$(0.13)	$ (0.10)	$(0.68)	$(0.83)

The Company excluded the following weighted average items from the above computation of diluted loss per common share, as their effect would be anti-dilutive:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Stock options	1,048,135	993,546	1,040,940	979,775
Warrants	480,658	520,147	503,413	537,039
Total excluded shares	1,528,793	1,513,693	1,544,353	1,516,814

NOTE 8. REVENUE

Except for the changes below, the Company has consistently applied its accounting policies to all periods presented in the consolidated financial statements. On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method, under which comparative periods will not be restated and the cumulative effect of applying the standard will be recognized at the date of initial adoption on January 1, 2018. As a result, the opening balance of retained earnings as of January 1, 2018 decreased by $98,822 and the comparative information in prior year periods continues to be reported under ASC 605.

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Initial Adoption Change
The effects to the condensed consolidated balance sheet as of December 31, 2017, as adjusted for the adoption of ASC 606 on January 1, 2018, are as follows:

	As Reported 12/31/17	Adjustments	As Adjusted 1/1/2018
Assets			
Current:			
Cash and cash equivalents	$3,906,797		$3,906,797
Accounts receivable, net	3,647,025	92,405	3,739,430
Prepaid expenses	389,104		389,104
Other current assets	9,140		9,140
Total current assets	7,952,066	92,405	8,044,471
Property and equipment, net	286,043		286,043
Goodwill	3,604,720		3,604,720
Intangible assets, net	667,909		667,909
Software development costs, net	967,927		967,927
Security deposits	148,638		148,638
Total assets	$13,627,303	$ 92,405	$13,719,708
Liabilities and Stockholders’ Equity			
Current liabilities:			
Accounts payable	$1,756,841		$1,756,841
Accrued expenses	1,592,356		1,592,356
Unearned revenue	3,070,502	191,227	3,261,729
Line of credit	500,550		500,550
Current portion of deferred rent	45,127		45,127
Current portion of acquisition costs payable	741,155		741,155
Total current liabilities	7,706,531	191,227	7,897,758
Deferred rent, less current portion	17,419		17,419
Acquisition costs payable, less current portion	609,768		609,768
Total liabilities	8,333,718	191,227	8,524,945
Stockholders’ equity:			
Common stock, $.0001 par value; 200,000,000 shares authorized; 5,733,981 issued and outstanding	573		573
Additional paid-in capital	52,570,432		52,570,432
Accumulated deficit	(47,277,420)	(98,822)	(47,376,242)
Total stockholders’ equity	5,293,585	(98,822)	5,194,763
Total liabilities and stockholders’ equity	$13,627,303	$ 92,405	$13,719,708

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Dual Reporting
The effects to the condensed consolidated financial statements as of September 30, 2018, as a result of applying ASC 606, rather than previous GAAP for revenue ("ASC 605") are as follows:

	As Reported (ASC 606)	Adjustments	Previous GAAP (ASC 605)
Balance Sheet:			
Accounts receivable, net	$6,811,029	$ 156,315	$6,967,344
Contract liabilities	5,631,096	(5,631,096)	—
Unearned revenue	—	5,659,184	5,659,184
Accumulated deficit	(52,401,946)	128,227	(52,273,719)
Statements of Operations:			
Revenue:			
Three months ended September 30, 2018	$5,780,941	16,459	5,797,400
Nine months ended September 30, 2018	$13,798,342	29,405	13,827,747

The changes reflected above were primarily due to the Company's delivery of its managed services related to influencer marketing services. Under ASC 605, these were recognized as separate elements at a point in time as services were delivered to the customer and under ASC 606, these are recognized as a single performance obligation over time based on an input model utilizing cost-to-cost methodology.

Disaggregation of Revenue
The following table illustrates our revenue by product service type:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Managed Services	$ 4,859,435	$ 12,660,949
Marketplace Spend Fees, net	378,768	388,492
License Fees	485,651	538,262
Legacy Workflow, net	48,409	164,994
Other	8,678	45,645
Total Revenue from Customers	$ 5,780,941	$ 13,798,342

Contract Balances
The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

September 30,
2018