

COMMERCETEL CORP
Form 10-Q
May 21, 2012

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the fiscal quarterly period ended March 31, 2012

Commission file number 000-53851

CommerceTel Corporation
(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

26-3439095
(I.R.S. Employer
Identification No.)

58 W. Buffalo St. #200
Chandler, AZ 85225
(Address of Principal Executive Offices & Zip Code)

(866) 622-4261
(Telephone Number)

Dennis Becker
CommerceTel Corporation
58 W. Buffalo St. #200
Chandler, AZ 85225

Telephone & Facsimile (866) 622-4261

(Name, Address and Telephone Number of Agent for Service)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to section 12(g) of the Act:
Common Stock, \$.001 par value

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

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

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

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

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

As of May 10, 2012, the registrant had 22,904,308 shares of common stock issued and outstanding.

COMMERCETEL CORPORATION
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Part I Financial Information

Item 1.

Financial Statements.
CommerceTel Corporation
Consolidated Balance Sheets

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
Current assets		
Cash	\$ 240	\$ 396
Accounts receivable, net of allowance for doubtful accounts of \$54,973 and \$18,050, respectively	227,259	243,846
Other current assets	304,889	15,924
Total current assets	532,388	260,166
Equipment, net		
Goodwill	24,213	25,316
Intangible assets, net	3,002,070	3,002,070
Other assets	968,507	1,116,506
TOTAL ASSETS	\$ 4,572,356	\$ 4,601,104
Current liabilities		
Accounts payable	\$ 1,068,414	\$ 842,777
Accrued interest	172,166	130,426
Accrued and deferred personnel compensation	343,768	237,691
Deferred revenue - related party	167,000	200,000
Deferred revenue and customer deposits	136,437	126,525
Convertible notes payable, net of discount	1,476,370	1,002,730
Notes payable, net of discount	614,842	736,270
Cash payment obligation, net of discount	25,000	86,714
Derivative liabilities	2,305,175	1,573,859
Other current liabilities	289,447	245,227
Earn-out payable	2,597,587	-
Total current liabilities	9,196,206	5,182,219
Non-current liabilities		
Long term accounts payable	-	125,846
Earn-out payable	-	2,658,238
Total non-current liabilities	-	2,784,084
Total liabilities	9,196,206	7,966,303
Stockholders' equity (deficit)		
Common stock, \$0.001 par value; 150,000,000 shares authorized; 22,904,308 and 22,754,308 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	22,904	22,754
Common stock liability	87,000	-
Additional paid-in capital	21,445,728	21,099,289
Accumulated deficit	(26,179,482)	(24,487,242)

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Total stockholders' equity (deficit)	(4,623,850)	(3,365,199)
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT) \$	4,572,356	\$ 4,601,104

See accompanying notes to condensed consolidated financial statements.

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CommerceTel Corporation
Consolidated Statements of Operations
(Unaudited)

	Three months ended March 31,	
	2012	2011 (Restated)
Revenues		
Revenues	\$ 1,013,206	\$ 140,638
Cost of revenues	367,769	79,837
Gross margin	645,437	60,801
Operating expenses		
General & administrative	951,987	624,214
Sales & marketing	312,873	63,925
Engineering, research, & development	160,186	146,491
Depreciation & amortization	154,617	2,037
Total operating expenses	1,579,663	836,667
Loss from operations	(934,226)	(775,866)
Other income/(expense)		
Interest income	-	158
Interest expense, net	(358,178)	(105,408)
Change in fair market value of derivative liabilities	(460,487)	(430,402)
Gain on adjustment in contingent consideration	60,651	-
Total other income/(expense)	(758,014)	(535,652)
Loss before income taxes	(1,692,240)	(1,311,518)
Income tax expense	-	-
Net loss	\$ (1,692,240)	\$ (1,311,518)
Net loss per share - basic and diluted	\$ (0.07)	\$ (0.07)
Weighted average number of shares during the period - basic and diluted	22,797,641	17,711,048

See accompanying notes to condensed consolidated financial statements.

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CommerceTel Corporation
Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited)

	Common Stock		Common	Additional	Accumulated	Total
	Shares	Amount	Stock	Paid-In	Deficit	Stockholders'
			Liability	Capital		Equity
						(Deficit)
Balance, December 31, 2011	22,754,308	\$ 22,754	\$ -	\$ 21,099,289	\$ (24,487,242)	\$ (3,365,199)
Common stock for services	150,000	150	87,000	182,850		270,000
Stock-based compensation			-	113,861		113,861
Adjustment to derivative liability due to debt repayment			-	49,728		49,728
Net loss					(1,692,240)	(1,692,240)
Balance, March 31, 2012	22,904,308	\$ 22,904	\$ 87,000	\$ 21,445,728	\$ (26,179,482)	\$ (4,623,850)

See accompanying notes to condensed consolidated financial statements.

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CommerceTel Corporation
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended March 31,	
	2012	2011 (restated)
OPERATING ACTIVITIES		
Net loss	\$ (1,692,240)	\$ (1,311,518)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	46,384	-
Common stock for services	270,000	-
Stock-based compensation	113,861	344,609
Depreciation and amortization expense	154,617	2,037
Gain on adjustment in contingent consideration	(60,650)	-
Change in fair market value of derivative liabilities	460,487	430,402
Amortization of deferred financing costs	35,154	-
Amortization of note discounts	277,349	78,810
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(29,797)	(1,011)
Other current assets	(324,119)	(23,680)
Other assets	2,939	-
Accounts payable	225,637	81,364
Accrued interest	41,740	26,598
Accrued and deferred personnel compensation	106,077	(6,356)
Deferred revenue and customer deposits	(23,088)	53,359
Long term accounts payable	23,083	-
Other liabilities	44,220	(450)
Net cash used in operating activities	(328,347)	(325,836)
INVESTING ACTIVITIES		
Purchases of equipment	(5,515)	(2,412)
Acquisition of intangible assets	-	(60,000)
Net cash used in investing activities	(5,515)	(62,412)
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	585,100	10,000
Payments on notes payable	(188,894)	-
Payments on cash payment obligation	(62,500)	-
Proceeds from issuance of common stock and warrants	-	210,000
Net cash provided by financing activities	333,706	220,000
Net change in cash	(156)	(168,248)
Cash at beginning of period	396	373,439
Cash at end of period	\$ 240	\$ 205,191

Supplemental disclosures:

Cash paid during period for :

Interest	\$	4,835	\$	-
Non cash investing and financing activities:				
Debt discount	\$	320,557	\$	4,299
Adjustment to derivative liability due to debt repayment	\$	49,728	\$	-
Common stock issued for patents and trademarks	\$	-	\$	50,000

See accompanying notes to condensed consolidated financial statements.

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CommerceTel Corporation
Notes to Condensed Consolidated Financial Statements

1. Reverse Merger Transaction and Accounting

Reverse Merger Transaction

CommerceTel Corporation (the “Company”) was incorporated as Ares Ventures Corporation in Nevada in 2008, and was renamed CommerceTel Corporation in 2010. On November 2, 2010, the Company acquired CommerceTel, Inc., which was wholly-owned by CommerceTel Canada Corporation (“CTel Canada” or “our former parent”), in a reverse merger, or the “Merger”. Pursuant to the Merger, all of the issued and outstanding shares of CommerceTel, Inc. common stock were converted, at an exchange ratio of 0.7268-for-1, into an aggregate of 10,000,000 shares of the Company’s common stock, and CommerceTel, Inc. became a wholly owned subsidiary of the Company. The accompanying condensed consolidated financial statements, common share and weighted average common share basic and diluted information has been retroactively adjusted to reflect the exchange ratio in the Merger.

Reverse Merger Accounting

Immediately following the consummation of the Merger, the: (i) former security holders of CommerceTel, Inc. common stock had an approximate 56% voting interest in the Company and the Company stockholders retained an approximate 44% voting interest, (ii) former executive management team of CommerceTel, Inc. remained as the only continuing executive management team for the Company, and (iii) Company’s ongoing operations consist solely of the ongoing operations of CommerceTel, Inc. Based primarily on these factors, the Merger was accounted for as a reverse merger and a recapitalization in accordance with generally accepted accounting principles in the United States of America, or “GAAP”. As a result, these condensed financial statements reflect the: (i) historical results of CommerceTel, Inc. prior to the Merger, (ii) combined results of the Company following the Merger, and (iii) acquired assets and liabilities at their historical cost. In connection with the Merger, the Company received net assets of \$16,496.

On December 7, 2010, the Board of Directors of the Company resolved to change the Company’s fiscal year end from September 30 to December 31, effective immediately, to coincide with the fiscal year end of its wholly owned subsidiary CommerceTel, Inc.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

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

Principles of Accounting and Consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Going Concern

The Company's financial statements have been prepared assuming that it will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

However, we have incurred continued losses, have a net working capital deficiency, and have an accumulated deficit of approximately (\$26.2) million as of March 31, 2012. These factors among others create a substantial doubt about our ability to continue as a going concern. The Company is dependent upon sufficient future revenues, additional sales of our securities or obtaining debt financing in order to meet its operating cash requirements. Barring the Company's generation of revenues in excess of its costs and expenses or its obtaining additional funds from equity or debt financing, or receipt of significant licensing prepayments, the Company will not have sufficient cash to continue to fund the operations of the Company through September 30, 2012. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In response to our Company's cash needs, we raised additional bridge financing totaling \$740,100 as between January and May, 2012. Longer term, we anticipate that we will raise additional equity financing through the sale of shares of the Company's common stock in order to finance our future investing and operating cash flow needs. However, there can be no assurance that such financings will be available on acceptable terms, or at all.

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We anticipate, based on currently proposed plans and assumptions relating to our ability to market and sell our products, that our cash on hand will not satisfy our operational and capital requirements for the next 6 months. Further, the operation of our business and our efforts to grow our business further both through acquisitions and organically will require significant cash outlays and commitments. The timing and amount of our cash needs may vary significantly depending on numerous factors. Our existing working capital is not sufficient to meet our cash requirements and we will need to seek additional capital, potentially through debt, or equity financings, to fund our growth.

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

Use of Estimates

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

Purchase Accounting

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

Cash

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

Fair Value of Financial Instruments

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

Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

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

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

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

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

Description	Level 1	Level 2	Level 3	Gains (Losses)
Intangibles, net (non-recurring)	\$-	\$-	\$850,591	\$-
Goodwill (non-recurring)	\$-	\$-	\$3,002,070	\$-
Derivatives (recurring)	\$-	\$-	\$2,305,175	\$(460,487)

The following table presents assets and liabilities that are measured and recognized at fair value as of December 31, 2011 on a recurring and non-recurring basis:

Description	Level 1	Level 2	Level 3	Gains (Losses)
Intangibles, net (non-recurring)	\$-	\$-	\$1,116,506	\$(1,325,134)
Goodwill (non-recurring)	\$-	\$-	\$3,002,070	\$(10,435,170)
Derivatives (recurring)	\$-	\$-	\$1,573,859	\$(1,234,145)

The Company has goodwill and intangible assets as a result of the 2011 business combinations discussed throughout this form 10-Q. These assets were valued with the assistance of a valuation consultant and consisted of level 3 valuation techniques

The Company has derivative liabilities as a result of 2011 and 2012 convertible promissory notes and common stock and warrants with exercise price reset provisions that include embedded derivatives. These liabilities were valued with the assistance of a valuation consultant and consisted of level 3 valuation techniques.

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

Accounts Receivable

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

From time to time, the Company may have a limited number of customers with individually large amounts due. Any unanticipated change in one of the customer's credit worthiness could have a material effect on the results of operations in the period in which such changes or events occurred. The Company recorded an allowance for doubtful accounts of \$54,973 at March 31, 2012 and \$18,050 at December 31, 2011.

Equipment

Equipment is recorded at cost, consists primarily of computer equipment and is depreciated using the straight-line method over the estimated useful lives of the related assets (generally five years or less). Costs incurred for

maintenance and repairs are expensed as incurred and expenditures for major replacements and improvements are capitalized and depreciated over their estimated remaining useful lives. Depreciation expense for the three months ended March 31, 2012 and 2011 was \$6,618 and \$1,284, respectively. Accumulated depreciation for the Company's equipment equaled \$141,427 at March 31, 2012 and \$134,810 at December 31, 2011.

Net property and equipment were as follows:

	March 31, 2012	December 31, 2011
Equipment	\$ 151,072	\$ 146,872
Furniture and Fixtures	14,569	13,254
Subtotal	165,641	160,126
Less accumulated depreciation	(141,427)	(134,810)
Total	\$ 24,213	25,316

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Goodwill and Other Intangible Assets

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

As of March 31, 2012, amortizable intangible assets consist of patents and trademarks, customer contracts, customer relationships, trade name, acquired technology, and non compete agreements. These intangibles are being amortized on a straight line basis over their estimated useful lives one to five years. The Company recorded amortization of our intangible assets of \$147,999 and \$753 for the three months ended March 31, 2012 and 2011, respectively.

Impairment of Long-Lived Assets

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

Derivative Financial Instruments

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

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

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

The discount from the face value of the convertible debt, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to interest expense, using the effective interest method.

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

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Revenue Recognition

The Company's "C4" Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution, as is the newly acquired Txtstation Control Center platform. The Company generates revenue from licensing its software to clients in its software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services. The Company recognizes license fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. The Company recognizes revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. The Company considers authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting. As for the newly acquired Mobivity and Boomtext platforms, which are both hosted solutions, revenue is principally derived from subscription fees from customers. The subscription fee is billed on a month to month basis with no contractual term and is collected by credit card for Mobivity and collected by cash and credit card for Boomtext. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. Cash received in advance of the performance of services is recorded as deferred revenue. Deferred revenues totaled \$286,082 at March 31, 2012 and \$309,063 at December 31, 2011.

Stock-based Compensation

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

Long Term Accounts Payable

The company had recorded amounts pertaining to payments made prior to the acquisitions of Boomtext as well as amounts due to it from the sellers of Boomtext in accounts that are included in Other Assets and Long Term Accounts Payable as of the year ended December 31, 2011. The amount recorded as a receivable from the sellers of Boomtext totaled \$148,930, and the amount due to these sellers totaled \$125,846 at December 31, 2011. As of March 31, 2012 these amounts have been reclassified to Other Current Assets and Accounts Payable, since these balances will be settled in March of 2013 when the Earn-out payable to Boomtext is paid. The amount recorded as a receivable from the sellers of Boomtext totaled \$278,875 and the amount due to these sellers totaled \$259,761 at March 31, 2012.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the three months ended March 31, 2012 and 2011, the comprehensive loss was equal to the net loss.

Net Loss Per Common Share

Net loss per share is presented as both basic and diluted net loss per share. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. During 2012 and 2011, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive. These outstanding securities consist of 2,404,167 outstanding options and 842,142 outstanding warrants. In addition, see potential issuances associated with warrants and convertible debt in Notes 5 and 6.

Reclassifications

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

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Recent Accounting Pronouncements

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

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This update clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This update is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for the Company is January 1, 2012. The Company does not expect that adopting this update will have a material impact on its consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles — Goodwill and Other" (ASU 2011-08). ASU 2011-08 allows a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step impairment test would be performed. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. This update is expected to change the process the Company uses to test goodwill for impairment, but is not expected to have a material impact on its consolidated financial statements.

3. Acquisitions

Txtstation Acquisition

On April 1, 2011, the Company acquired substantially all of the assets of the Txtstation interactive mobile marketing platform and services business from Adsparg Limited ("Adsparg"). The purchase price for the acquisition was 2,125,000 shares of the Company's common stock, \$26,184 in cash at closing and \$250,000 of scheduled cash payments. The \$250,000 of scheduled cash payments are due as follows: \$25,000 payable on the 60th day following closing and the balance is payable in \$25,000 installments at the end of each of the next nine 30-day periods thereafter.

The Company also issued 300,000 shares of its common stock to the controlling stockholder of Adsparg in consideration of certain indemnification obligations and other agreements.

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

Mobivity Acquisition

Effective April 1, 2011, the Company completed the acquisition of Mobivity, LLC's and Mobile Visions, Inc.'s Mobivity interactive mobile marketing platform and services business.

The purchase price for the acquisition consisted of 1,000,000 shares of the Company's common stock, \$64,969 in cash paid at closing and a secured subordinated promissory note of CommerceTel, Inc. in the principal amount of \$606,064. The promissory note earns interest at 6.25% per annum; is payable in six quarterly installments of

\$105,526 (inclusive of interest) starting May 1, 2011; matures on August 1, 2012; is secured by the acquired assets of the Mobivity business; and is subordinated to the Company's obligations under its outstanding 10% Senior Secured Convertible Bridge Notes due May 2, 2011 (see Note 5). Mobivity, LLC was granted a security interest in the acquired assets, subordinated only to the Company's senior debt (Bridge Loan), and a majority of the Bridge Lenders consented to the junior security interest.

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

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BoomText Acquisition

Effective August 1, 2011, the Company completed the purchase from with Digimark, LLC (“Digimark”) of substantially all of the assets of its BoomText interactive mobile marketing services business. The purchase price for the acquisition consisted of the following components: (i) 519,540 shares of the Company’s common stock issued at closing; (ii) \$120,514 in cash paid at closing; (iii) a secured subordinated promissory note of CommerceTel, Inc. in the principal amount of \$175,000. This note earns interest at 6.25% per annum; is payable in full on May 25th, 2012 (original maturity March 31, 2012 was extended); is secured by all of the assets of CommerceTel, Inc. and is subordinated to the Company’s obligations under its outstanding 10% Senior Secured Convertible Bridge Notes due November 3, 2011; (iv) an unsecured subordinated promissory note in the principal amount of \$194,658 issued by CommerceTel, Inc. This note does not bear interest; is payable in installments (varying in amount) from August 2011 through October 2012; and is subordinated to the Company’s obligations under its outstanding 10% Senior Secured Convertible Bridge Notes due November 3, 2011; (v) an earn-out payment (payable 20 months after closing of the transaction) of a number of shares of common stock of the Company equal to (a) 1.5, multiplied by the Company’s net revenue from acquired customers and customer prospects for the twelve-month period beginning six months after the closing date, divided by (b) the average of the volume-weighted average trading prices of the Company’s common stock for the 25 trading days immediately preceding the earn-out payment (subject to a collar of \$1.49 and \$2.01 per share). As of March 31, 2012 the dollar value of the earn-out payable is \$2,597,587, which is recorded as a non-current liability on the accompanying condensed consolidated balance sheet. The estimated number of common shares to be issued to settle the earn-out payable is 2,597,587 as of March 31, 2012. The purchase price also included the assumption of an office lease obligation and certain of Digimark’s accounts payable.

For one year following the closing of the transaction, 50% of the shares of common stock issued to Digimark at closing will be held in escrow as security for its indemnification obligations in the transaction.

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

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

4. Goodwill and Purchased Intangibles

As required under ASC 350, Intangibles - Goodwill and Other, goodwill is separately disclosed from other intangible assets on the consolidated balance sheet and not amortized, and is tested for impairment on at least an annual basis.

The following table presents details of the Company’s total purchased intangible assets as of March 31, 2012:

	Balance at December 31, 2011	Additions	Amortization	Balance at March 31, 2012
Patents and trademarks	\$120,016	\$-	\$ (2,009)	\$117,917
Customer contracts	103,000	-	(6,059)	96,941
Customer relationships	496,999	-	(87,274)	409,725

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Trade name	70,750	-	(20,103)	50,647
Technology/IP	322,116	-	(31,673)	290,443
Non-compete	3,625	-	(791)	2,834
	\$1,116,506	\$-	\$ (147,999)	\$968,507

During the three months ended March 31, 2012, the Company recorded amortization expense related to purchased intangibles of \$147,999, which is included in Depreciation & amortization in the Consolidated Statement of Operations.

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The estimated future amortization expense of purchased intangible assets as of March 31, 2012 is as follows:

Year ending December 31,	Amount
2012	\$434,336
2013	\$307,690
2014	\$101,361
2015	\$32,631
2016	\$14,455
Thereafter	\$78,034

Beginning in 2011, the Company performed its annual goodwill impairment test outlined under ASC 350 which requires the assessment of goodwill for impairment on an annual basis. The assessment of goodwill impairment will be conducted by determining and comparing the fair value of our reporting units, as defined in ASC 350, to the reporting unit's carrying value as of that date. The fair value will be determined using an income approach under which the fair value of the asset is based on the value of the cash flows that the asset can be expected to generate in the future. These estimated future cash flows will be discounted to arrive at their respective fair values.

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

5. Derivative Liabilities

As discussed in Note 6 under Bridge Financing, the Company issued convertible notes payable that provide for the issuance of warrants to purchase its common stock at a future date. The conversion term for the convertible notes is variable based on certain factors. The number of warrants to be issued is based on the future price of the Company's common stock. As of March 31, 2012, the number of warrants to be issued remains indeterminate. Due to the fact that the number of warrants issuable is indeterminate, the equity environment is tainted and all additional warrants and convertible debt are included in the value of the derivative. Pursuant to ASC 815-15 Embedded Derivatives, the fair values of the variable conversion option and warrants / shares to be issued were recorded as derivative liabilities on the issuance date.

In 2011, the Company commenced a private placement in late March 2011. The private placement structure consists of a series of identical subscription agreements for the sale of units comprised of shares of the Company's common stock at a price of \$1.50 per share and an equivalent number of warrants at an exercise price of \$2.00. Both the common shares and the warrants contain anti-dilutive, or down round, price protection. The down round protection for the common shares terminates on the earlier of the date on which an effective registration statement is filed with the SEC covering the shares, or the shares become freely tradable pursuant to Rule 144 promulgated under the Securities Act of 1933. The down round protection for the warrant terminates when the warrant expires or is exercised. Pursuant to ASC 815-15 Embedded Derivatives and ASC 815-40 Contracts in Entity's Own Equity, the Company determined that the down round price protection on the common stock represents a derivative liability. Additionally, the Company recorded a derivative liability for the warrants issued in the transactions.

The fair values of the Company's derivative liabilities were estimated at the issuance date and are revalued at each subsequent reporting date, using a Monte Carlo simulation. At March 31, 2012, the Company recorded current derivative liabilities of \$2,305,175. The change in fair value of the derivative liabilities for the three months ended March 31, 2012 and 2011 was a loss of \$460,487, and \$430,402, respectively, which were reported as other income/(expense) in the consolidated statements of operations.

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Derivative Value by Instrument Type	March 31, 2012	December 31, 2011
Convertible Bridge Notes	\$1,086,426	\$747,424
Common Stock and Warrants	897,805	826,435
Non-employee Warrants	320,944	-
	\$2,305,175	\$1,573,859
		Total
Beginning balance January 1, 2011		\$334,478
Issuances in derivative value due to new security issuance of notes		149,197
Issuances in derivative value due to new security issuances of common stock and warrants		1,185,150
Converted		(143,961)
Change in fair market value of derivative liabilities		48,995
Beginning balance January 1, 2012		\$1,573,859
Issuances in derivative value due to new security issuances of notes		320,557
Issuances in derivative value due to vesting of non-employee warrants		422,738
Adjustment to derivative liability due to debt repayment		(49,728)
Change in fair market value of derivative liabilities		37,749
Ending balance March 31, 2012		\$2,305,175

Key inputs and assumptions:

For issuances of notes, common stock and warrants:

Stock prices on all measurement dates were based on the fair market value

Down round protection is based on the subsequent issuance of common stock at prices less than \$1.50 per share and warrants less than \$2.00 per share

The probability of future financing was estimated at 100%

Computed volatility of 65%

Risk free rates ranging from 0.03% to 0.78%

For issuances of non-employee warrants:

Computed volatility of 65%

Risk free rates ranging from 0.59% to 1.04%

Expected life (years) from 3.00 to 5.00

See note 8, discussing fair value measurements.

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

Bridge Financing

From November 2010 through March 2011, the Company issued to a number of accredited investors a series of its 10% Senior Secured Convertible Bridge Note (the "Notes") in the aggregate principal amount of \$1,010,000 (the "Financing"). The Notes accrue interest at the rate of 10% per annum. The entire principal amount evidenced by the Notes (the "Principal Amount") plus all accrued and unpaid interest is due on the earlier of (i) the date the Company completes a financing transaction for the offer and sale of shares of common stock (including securities convertible into or exercisable for its common stock), in an aggregate amount of no less than 125% of the principal amounts evidenced by the Notes (a "Qualifying Financing"), and (ii) November 2 2011. If the Notes are held to maturity, the

Company pays, at the option of the holder: i) cash or ii) in securities to be issued by the Company in the Qualifying Financing at the same price paid by other investors. The Notes are secured by a first priority lien and security interest in all of the Company's assets.

In November 2011, the Company entered into agreements with all holders of the then outstanding Notes. Under the terms of the agreements, holders of Notes totaling \$800,000 agreed to extend the maturity due date of the Notes to February 2, 2012. For these note holders, no change occurred in their rights. Holders of the balance of the Notes totaling \$210,000 agreed to convert the entire principal amount plus all accrued and unpaid interest of \$20,271 into units (each, a "Unit"), each of which consists of one share of common stock of the Company and a four-year warrant to purchase one share of the Company's common stock at \$2.00 per share. The conversion took place at a price of \$1.50 per Unit. Accordingly, the Company issued an aggregate of 153,515 shares of common stock and 153,515 warrants. As a result of the conversion, the holders of the converted Notes forfeited all rights thereunder, including the right to acquire warrants to purchase the Company's common stock.

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Also in November 2011, the Company issued additional Notes in the aggregate principal amount of \$262,500. These Notes were due February 2, 2012 and contain the same rights and privileges as the previously issued Notes. In January, 2012, the Company issued additional Notes in the principal amount of \$520,000. As of April 11, 2012, all note holders with maturity dates of February 2, 2012 have extended the maturity through May 2, 2012.

In March and April 2012, the Company issued additional Notes in the aggregate principal amount of \$220,100 due May 2, 2012. In March 2012, one note holder was repaid a partial principal balance of \$65,000. We are currently working with all note holders to extend the maturity or convert into equity. As of the date of this filing, these notes are past due.

On the maturity date of the Notes, in addition to the repayment of the Principal Amount and all accrued and unpaid interest, the Company will issue to each holder of the Notes, at each such holder's option, (i) three-year warrants to purchase that number of shares of its common stock equal to the Principal Amount plus all accrued and unpaid interest divided by the per share purchase price of the common stock offered and sold in the Qualifying Financing (the "Offering Price") which warrants shall be exercisable at the Offering Price, or (ii) that number of shares of common stock equal to the product arrived at by multiplying (x) the Principal Amount plus all accrued and unpaid interest divided by the Offering Price and (y) 0.33.

The Company's obligations under the Notes are secured by all of the assets of the Company, including all shares of CommerceTel, Inc., its wholly owned subsidiary.

WFG Investments, Inc. and Emerging Growth Equities, Ltd., both registered broker dealers, were paid placement agent fees related to the Notes in the amount of \$40,000 and \$52,107, respectively, which were capitalized as deferred financing costs, and are being amortized over the term of the Notes using the effective interest method. The Company recorded \$35,154 of expense for the amortization of the deferred financing costs for the three months ended March 31, 2012, and \$10,000 for the three months ended March 31, 2011.

The following table summarizes information relative to all of the outstanding Notes at March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2012
Bridge notes payable	\$1,582,600	\$ 1,062,500
Less unamortized discounts:		
Variable maturity discount	(21,510)	(12,031)
Warrant discount	(84,720)	(47,739)
Bridge notes payable, net of discounts	\$1,476,370	\$ 1,002,730

In accordance with ASC 470-20 Debt with Conversion and Other Options, the Company recorded a discount of \$65,009 for the variable conversion feature and a discount of \$255,548 for the warrants / shares to be issued. The discounts will be amortized to interest expense over the term of the Notes using the effective interest method. The Company recorded \$274,097 of interest expense for the amortization of the note discounts associated with derivative liabilities during the year ended March 31, 2012.

In accordance with ASC 815-15, the Company determined that the variable conversion feature and the warrants / shares to be issued represented embedded derivative features, and these are shown as derivative liabilities on the balance sheet. See Note 5.

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

Mobivity Note

As partial consideration for the acquisition of Mobivity, the Company issued a secured subordinated promissory note in the principal amount of \$606,000. The promissory note accrues interest at 6.25% per annum; is payable in six quarterly installments of \$105,526 (inclusive of interest) starting May 1, 2011; matures on August 1, 2012; is secured by the acquired assets of the Mobivity business; and is subordinated to the Company's obligations under its Notes discussed above. Mobivity, LLC was granted a security interest in the acquired assets, subordinated only to the Company's Notes, and a majority of the Bridge Financing lenders consented to the junior security interest.

During the three months ended March 31, 2012, the Company made principal and interest payments totaling \$105,526 on the promissory note, and the outstanding principal amount of the note is \$208,357 at March 31, 2012.

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Digimark, LLC Notes

As partial consideration for the acquisition of Boomtext, the Company issued a secured subordinated promissory note in the principal amount of \$175,000. The promissory note accrues interest at 6.25% per annum; is payable in full on May 25, 2012 (original maturity March 31, 2012 was extended); is secured by all of the assets of CommerceTel, Inc. and is subordinated to the Company's obligations under its Notes discussed above.

As partial consideration for the acquisition of Boomtext, the Company also issued an unsecured subordinated promissory note in the principal amount of \$195,000. The promissory note does not bear interest; is payable in installments (varying in amount) from August 2011 through October 2012; and is subordinated to the Company's obligations under its Notes discussed above. The \$195,000 unsecured subordinated promissory note does not bear interest; accordingly, the Company recorded the promissory note at the present value of the \$195,000 payments over the subsequent periods. The Company used a discount rate of 6.25% in calculating the net present value of the unsecured promissory note. The discount rate was based on the Company's estimated cost of capital. Under the effective interest method, the Company accretes the debt discount to the face amount of the promissory note. Accretion of the debt discount totaled \$2,466 for the three months ended March 31, 2012. Accretion of the debt discount was charged to interest expense in accordance with FASB ASC 480.

Summary of Notes Payable and Accrued Interest

The following table summarizes the Company's notes payable and accrued interest as of March 31, 2012 and December 31, 2011:

	Notes Payable		Accrued Interest	
	3/31/2012	12/31/2011	3/31/2012	12/31/2011
Bridge notes, net as discussed above	\$1,476,370	\$1,002,730	\$132,804	\$95,823
Mobivity note, as discussed above	208,357	310,135	-	-
Unsecured (as amended) note payable due to our Company's former Chief Executive Officer, interest accrues at the rate of 9% compounded annually, all amounts due and payable December 31, 2008. See Note 12	20,000	20,000	11,568	10,871
Note payable due to a trust, interest accrues at the rate of 10% per annum, all amounts due and payable December 31, 2006. The Company is negotiating the terms of this note.	51,984	51,984	20,381	19,084
Digimark, LLC secured subordinated promissory note, as discussed above	175,000	175,000	7,413	4,648
Digimark, LLC subordinated promissory note, net, as discussed above	159,501	179,151	-	-
	\$2,091,212	\$1,739,000	\$172,166	\$130,426

Interest expense, including amortization of note discounts, totaled \$322,239 and \$105,408 for the three months ended March 31, 2012 and 2011, respectively.

Cash Payment Obligation

As partial consideration for the acquisition of Txtstation, the Company agreed to a \$250,000 of scheduled cash payments. The \$250,000 of scheduled cash payments is due as follows: \$25,000 payable on the 60th day following closing and the balance is payable in \$25,000 installments at the end of each of the next nine 30-day periods thereafter. The \$250,000 cash payment obligation does not bear interest; accordingly, the Company recorded the cash

payment obligation at the present value of the \$250,000 payments over the subsequent periods. The Company used a discount rate of 6.25% in calculating the net present value of the cash payment obligation. The discount rate was based on the Company's estimated cost of capital. Under the effective interest method, the Company accretes the debt discount to the face amount of the promissory note. Accretion of the debt discount totaled \$786 for the three months ended March 31, 2012. Accretion of the debt discount was charged to interest expense in accordance with FASB ASC 480.

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7. Stockholders' Equity (Deficit)

Common Stock

On March 2, 2012, the Company issued 150,000 common stock shares at a price of \$1.22 totaling \$183,000 for consulting services. The shares were valued based on the closing stock price for the date granted.

As of March 31, 2012, the Company has 22,904,308 common shares outstanding.

Common Stock Liability

On February 1, 2012, the Company authorized 75,000 common stock shares at a price of \$1.16 totaling \$87,000 for investor relations consulting services. The common stock liability was valued based on the closing stock price on the date granted.

Stock-based Compensation

2010 Incentive Stock Option Plan

On December 24, 2010, the Company adopted the 2010 Incentive Stock Option Plan ("the 2010 Plan"), subject to shareholder approval within one year. Shareholder approval was not obtained within one year, therefore incentive stock options granted under the 2010 Plan converted to non-qualified stock options. The 2010 Plan permits the Company to grant up to 3,124,000 shares of common stock and options to purchase shares of common stock. The 2010 Plan is designed to retain directors, executives and selected employees and consultants and reward them for making major contributions to the success of the Company. These objectives are accomplished by making long-term incentive awards under the 2010 Plan thereby providing participants with a proprietary interest in the growth and performance of the Company.

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

A summary of option activity under the 2010 Plan as of March 31, 2012 and changes during the three months then ended is presented below:

	Number Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)
Outstanding at January 1, 2012	1,610,000	\$ 0.82	5.13
Granted	10,000	1.16	4.84
Exercised	-	-	-
Canceled/forfeited/expired	-	-	-
Outstanding at March 31, 2012	1,620,000	\$ 0.82	4.87
Options vested and exercisable at March 31, 2012	455,516	\$ 0.75	4.98

Expense Information

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees and directors based upon estimated fair values. The Company recorded stock-based compensation in operating expenses for employees totaling \$113,861 and \$97,934 for the three months ended March 31, 2012 and 2011, respectively.

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Valuation Assumptions

The Company uses the Black-Scholes option pricing model in determining its option expense. The weighted-average estimated fair value of employee stock options granted during the three months ended March 31, 2012 was \$1.16 per share. There were 10,000 options granted during the three months ended March 31, 2012. The ranges of assumptions used during the three months ended March 31, 2012 are as follows:

	Employee Options	
Expected volatility	65.0	%
Risk-free interest rate	0.45	%
Forfeiture rate	0.0	%
Expected dividend rate	0.0	%
Expected life (yrs)	3.00 to 6.00	

The expected volatility is based on the weighted average of the historical volatility of publicly traded surrogates in the Company's peer group.

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

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

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

Warrants

During the three months ended March 31, 2012, the Company issued warrants totaling 25,000 to non-employee consultants that include graded vesting terms. As of March 31, 2012, 454,163 warrants were vested pursuant to these agreements. These warrants were valued using a Monte Carlo Simulation, the fair values of the warrants were estimated at the vesting date and are revalued at each subsequent reporting date. At March 31, 2012, the Company recorded current derivative liabilities for the non-employee warrants totaling \$320,944. The change in fair value of the derivative liabilities for the three months ended March 31, 2012 was a loss of \$320,944, which was reported as other income/(expense) in the consolidated statements of operations.

Valuation Assumptions

The Company uses a Monte Carlo simulation in determining the fair values of the warrants. There were 25,000 warrants granted during the three months ended March 31, 2012. The Company periodically revalues these warrants as they vest. The ranges of assumptions used during the three months ended March 31, 2012 are as follows:

	Non-Employee Warrants	
Expected volatility	65	%

Risk-free interest rate	0.30	%
Forfeiture rate	0.0	%
Expected dividend rate	0.0	%
Expected life (yrs)	3.00 to 6.00	

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A summary of warrant activity during the three months ended March 31, 2012 and changes during the three months then ended is presented below:

	Number Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)
Outstanding at January 1, 2012	905,000	\$ 0.33	5.10
Granted	25,000	1.16	4.84
Exercised	-	-	-
Canceled/forfeited/expired	-	-	-
Outstanding at March 31, 2012	930,000	\$ 0.35	4.85
Warrants vested and exercisable at March 31, 2012	454,163	\$ 0.33	4.39

As discussed in Note 6, the Company is obligated to issue warrants or shares pursuant to its Bridge Financing. The number of warrants / shares issuable pursuant to the agreements is not known as of March 31, 2012.

During the year ended December 31, 2011, the Company issued warrants for the purchase of 688,669 shares of common stock at \$2.00 per share in connection with its private placement discussed above under Common Stock. The warrants are exercisable for four years from the date of issuance, and contain anti-dilution, or down round, price protection as long as the warrant remains outstanding. In addition, the Company issued warrants for the purchase of 153,515 shares of common stock at \$2.00 per share in connection with the conversion of its outstanding Notes with a principal amount of \$210,000 discussed above in Note 6 under Bridge Financing. The warrants are exercisable for four years from the date of issuance. During the three months ended March 31, 2012, the Company did not issue any additional warrants. These warrants are shown below. These warrants are included in the derivative value as of March 31, 2012 and December 31, 2011.

Beginning balance January 1, 2012	842,184
Warrants issued	-
Warrants exercised	-
Warrants expired	-
Ending balance March 31, 2012	842,184

8. Income Taxes

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

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

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9. Fair Value Measurements

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

At March 31, 2012 and December 31, 2011, the Company recorded a liability related to the variable maturity feature and the future issuance of warrants / shares in connection with its Bridge Notes (See Note 6), and the common stock and warrants issued in the current year (See Note 5) at the aggregate fair market value of \$2,305,175 and \$1,573,859, respectively, utilizing unobservable inputs. The change in fair market value of these liabilities is included in other income (expense) in the consolidated statements of operations. The assumptions used in the Monte-Carlo simulation used to value the derivative liabilities involve expected volatility in the Company's common stock, estimated probabilities related to the occurrence of a future financing, and interest rates. As all the assumptions employed to measure this liability are based on management's judgment using internal and external data, this fair value determination is classified in Level 3 of the valuation hierarchy.

See note 5 for a table that provides a reconciliation of the beginning and ending balances of the derivative liabilities as of March 31, 2012 and December 31, 2011.

10. Concentrations

During the three months ended March 31, 2012, no customer accounted for more than 10% of revenues. During the three months ended March 31, 2011, two customers accounted for 37% and 17%, respectively. At March 31, 2012 two customers accounted for 16% and 17% of accounts receivable. At December 31, 2011, no customers were greater than 10% of receivables.

11. Commitments and Contingencies

Earn Out Contingency

The Company has an earn out commitment associated with the acquisition of Boomtext from Digimark, LLC. An earn-out payment (payable 20 months after closing of the transaction) of a number of shares of common stock of the Company equal to (a) 1.5, multiplied by the Company's net revenue from acquired customers and customer prospects for the twelve-month period beginning six months after the closing date, divided by (b) the average of the volume-weighted average trading prices of the Company's common stock for the 25 trading days immediately preceding the earn-out payment (subject to a collar of \$1.49 and \$2.01 per share). As of March 31, 2012, and December 31, 2011, the estimated dollar value of the earn-out payable is \$2,597,587, and \$2,658,238, respectively, which is recorded as a non-current liability on the accompanying consolidated balance sheet.

Litigation

In August 2008, the Company and certain employees, shareholders and directors (the “Plaintiffs”) initiated litigation against its former Chief Executive Officer (the “Defendant”) alleging criminal conduct against the financial interests and reputation of the Company. The Defendant countersued the Company. In December 2009, a judgment was entered in the Plaintiffs’ favor awarding damages and enjoining the Defendant from certain behavior prejudicial to the Company. The Company has not recognized any gains from the damages that may be paid to the Company in the future due to the uncertainty of their ultimate realization. Additionally, in a separate court action the Company has been enjoined against the payment of any amounts owed to the Defendant, including amounts due under a note payable noted above.

Operating Lease

On February 28, 2012, the Company signed an amendment to its existing lease for the facility in Chandler, Arizona to expand by adding 2,519 square feet in an adjacent suite. The amended lease agreement remains in force through December 2015.

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

Minimum Lease Payments

2012	\$ 118,200
2013	138,678
2014	143,492
2015	148,281
2016	-
	\$ 548,651

Lease Exit Obligation

The Company had a lease agreement for its office facilities in San Diego, California through June 2012. Upon signing a lease agreement for the facility in Chandler, the Company determined it no longer needed the San Diego facility. The property was vacated in November 2011 and returned to the owner. As of March 31, 2012, the Company has a Lease Exit Obligation totaling \$72,660 for the period December 2011 through June, 2012, made up of, \$38,088 in remaining rent obligation, \$32,550 in remaining deferred rent, \$2,022 in estimated common area maintenance charges. The Company expects no further charges in relation to this lease exit obligation, aside from actual common area maintenance charges reconciled against the estimate.

Rent expense for both the San Diego, California, and Chandler, Arizona facilities was \$49,289 for the three months ended March 31, 2012, and \$16,323 (for the San Diego location only) for the three months ended March 31, 2011.

Other

At December 31, 2010, the Company was delinquent with respect to the payment of wages earned by current employees due to an insufficient balance of cash on hand at the time the payrolls were due to be paid to the employees. Ahead of the Merger, employees agreed to convert the majority of the delinquent payments to equity in CommerceTel, Inc. The employees have agreed to continue their employment in the expectation of eventual payment of the remaining amounts due. It is the Company's full intention to satisfy or reach a settlement with all past due balances outstanding, which total approximately \$71,000 at March 31, 2012.

12. Employee Benefit Plan

The Company has an employee savings plan (the "Plan") pursuant to Section 401(k) of the Internal Revenue Code (the "Code"), covering all of its employees. Participants in the Plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code. The Company may make contributions at the discretion of its Board of Directors. During the three months ended March 31, 2012 and 2011, the Company made no contributions to the Plan.

13. Related Party Transactions

Prior to the reverse merger on November 2, 2010, Optimal Payments Corporation converted \$570,534 of debt into \$370,534 worth of CommerceTel Inc common stock and \$200,000 of prepaid services to be rendered by CommerceTel. These services remain owed to Optimal Payments Corporation at December 31, 2011. A member of CommerceTel's Board of Directors is currently President of Sterling Card Solutions, which has a minority ownership position in Optimal Payments Corporation. During the three months ended March 31, 2012, the Company began work on a project for Optimal Payments Corporation and recognized revenue of \$33,000.

Hidden River Ventures I, LLC is an existing shareholder in CommerceTel Corporation as a result of converting \$229,000 of payables in exchange for 415,937 shares of CommerceTel Corporation common stock. On October 26, 2010, the Company entered into a consulting agreement with a related company under common control, Hidden River, LLC, pursuant to which Hidden River, LLC would lead the Company's acquisition strategy. The consulting agreement calls for monthly payments of \$10,000, along with periodic bonus payments associated with the success of the acquisition strategy, as well as options to purchase 700,000 shares granted on December 24, 2010 priced at \$.32 per share. Of the options granted, 393,746 options were vested as of March 24, 2012. For the three months ended March 31, 2012, Hidden River earned \$30,000. As of March 31, 2012 Hidden River is currently owed a bonus approximately totaling \$96,000.

During the year ended December 31, 2011, the company entered into an employment agreement with the primary owner and shareholder of Digimark LLC, holder of 519,540 common shares, to serve as Executive Vice President of Business Development. He was paid \$30,000 as of March 31, 2012.

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During the three months ended March 31, 2012, the company entered into an employment agreement with the primary owner and shareholder of Mobivity, LLC and Mobile Visions, Inc. holder of 500,000 common shares, to serve as Senior Director of Software Engineering. He was paid \$12,500 as of March 31, 2012.

14. Subsequent Events

Bridge Notes Extended and Converted

In March and April, 2012, the Company entered into agreements with all holders of its 10% Senior Secured Convertible Bridge Notes (the "Notes") due February 2, 2012 in the principal amount of \$1,517,500. Under the terms of the agreements, holders of this principal amount agreed to extend the maturity due date of the Notes to May 2, 2012. The Company is currently working with these note holders to extend the maturity or convert to equity.

15. Restatement

On or about March 26, 2012, management and the Company concluded that the Company should restate goodwill related charges in connection with its three acquisitions that were completed during the year ended December 31, 2011. The Company's method of valuing the restricted common stock issued in the acquisitions at the price paid by investors for Company shares in a number of private offerings around the time of the acquisitions was incorrect, and a revised discounted restricted common stock valuation be used, as required under FAS 157/ASC 820. This change in valuation method of securities also affected share based compensation expense and certain derivative liabilities and related expenses.

Under ASC 820 Fair Value Measurements & Disclosures, a quoted stock price in an active market is considered primary (Type I) indicator of fair value of restricted stock issued in consideration for the acquisitions completed in 2011. The Company believed that the infrequent and low volume of initial trading of its common stock did not constitute an active market. Alternatively, throughout the year the company conducted a private placement in which units comprised of shares of restricted common stock and attached warrants were sold at \$1.50 per share. This price per share was bifurcated for the value of the common stock, the warrant, an embedded derivative related to down round protection on common stock, and an embedded derivative related to down round protection on the warrant. The price per common share that was determined by this valuation equaled \$1.00 for the three months ended March 31, 2011. The use of this method resulted in understated asset value for certain intangible assets, understated stock based compensation expense, an understatement of certain derivative liabilities and an understatement of the related expense related to the Company's derivative liability, as reflected in its financial statements for the quarters ended March 31, 2011.

The cumulative effect of this change through March 31, 2011 is an increase of \$32,142 in intangible assets, an increase of \$396,264 in current liabilities, which included a \$128,000 reclassification of derivative liabilities from Common Stock Liability, an increase of \$347,208 in additional paid-in capital, and a decrease of \$583,300 in the Company's net income, however this had no effect on the Company's reported cash flows. Unaudited Tables detailing the effect of the error on the Company's previously filed financial statements for the quarter ended March 31, 2011 are included below.

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NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Balance Sheet
(Unaudited)

	As Filed	March 31, 2011 Adjustments		Restated
Current Assets				
Cash	\$ 205,191	\$ -		\$ 205,191
Accounts Receivable	50,227	-		50,227
Other Current Assets	91,708	-		91,708
Total Current Assets	347,126	-		347,126
Equipment, Net	2,737	-		2,737
Intangible Assets, Net	77,105	32,142	(a)	109,247
Other Assets	46,317	-		46,317
TOTAL ASSETS	\$ 473,285	\$ 32,142		\$ 505,427
Current Liabilities				
Accounts Payable	\$ 233,307	\$ -		\$ 233,307
Accrued Interest	64,499	-		64,499
Accrued and Deferred Personnel Compensation	113,285	-		113,285
Deferred Revenue - related party	200,000	-		200,000
Deferred Revenue and Customer Deposits	86,677	-		86,677
Notes Payable, net of discount	71,984	-		71,984
Convertible notes payable, net of discount	817,299	(1,617)	(a)	815,682
Derivative Liabilities	371,298	397,881	(a)	769,179
Other Current Liabilities	68,692	-		68,692
Total Current Liabilities	2,027,041	396,264		2,423,305
Stockholders' Deficit				
Common Stock, \$0.001 par value; 150,000,000 shares authorized; 17,854,286 and 17,700,000 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	17,854	-		17,854
Additional Paid-in Capital	7,202,830	347,208	(a)	7,550,038
Common Stock Liability	128,030	(128,030)	(b)	-
Accumulated Deficit	(8,902,470)	(583,300)	(a)	(9,485,770)
Total Stockholders' Deficit	(1,553,756)	(364,122)		(1,917,878)
TOTAL LIABILITIES & STOCKHOLDERS' DEFICIT	\$ 473,285	\$ 32,142		