IZEA, Inc.
Form 10-Q
November 14, 2012
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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, 2012

.. 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.: 333-167960

IZEA, 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.) |

150 N. Orange Avenue
Suite 412
Orlando, FL 32801
(Address of principal executive offices)

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 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 x No o

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.

| | | |
|---|---|---|
| Large accelerated filer o | | Accelerated filer o |
| Non-accelerated filer o | (Do not check if a smaller reporting company) | Smaller reporting company x |

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

As of November 12, 2012, there were 5,114,280 shares of our common stock outstanding.

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Quarterly Report on Form 10-Q for the period ended September 30, 2012

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
IZEA, Inc.
Consolidated Balance Sheets

| | September 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| Assets | | |
| Current: | | |
| Cash and cash equivalents | $1,304,012 | $225,277 |
| Accounts receivable, net | 692,694 | 690,575 |
| Prepaid expenses | 147,627 | 165,736 |
| Deferred finance costs, net of accumulated amortization of $18,701 | 9,099 | — |
| Other current assets | 11,627 | 38,897 |
| Total current assets | 2,165,059 | 1,120,485 |
| Property and equipment, net | 124,103 | 152,434 |
| Intangible assets, net of accumulated amortization of $48,815 and $17,434 | 76,710 | 108,091 |
| Security deposits | 17,388 | 21,038 |
| Total assets | $2,383,260 | $1,402,048 |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities: | | |
| Accounts payable | $1,051,400 | $1,080,015 |
| Accrued payroll | 193,747 | 224,438 |
| Deferred rent | 2,330 | 10,830 |
| Unearned revenue | 1,235,401 | 1,132,794 |
| Compound embedded derivative | 84,765 | — |
| Current portion of capital lease obligations | 16,795 | 25,070 |
| Current portion of notes payable | 596,564 | — |
| Total current liabilities | 3,181,002 | 2,473,147 |
| Capital lease obligations, less current portion | 14,951 | 27,850 |
| Warrant liability | 43,205 | 752,486 |
| Total liabilities | 3,239,158 | 3,253,483 |
| Stockholders' deficit: | | |
| Series A convertible preferred stock; $.0001 par value; 240 shares authorized; 5 and 230 shares issued and outstanding | — | — |
| Common stock, $.0001 par value; 12,500,000 shares authorized; 4,117,460 and 966,227 issued and outstanding | 412 | 97 |
| Additional paid-in capital | 20,982,623 | 16,279,252 |
| Accumulated deficit | (21,838,933) | (18,130,784) |
| Total stockholders' deficit | (855,898) | (1,851,435) |

| | | |
|---|---|---|
| Total liabilities and stockholders’ deficit | $2,383,260 | $1,402,048 |

See accompanying notes to unaudited consolidated financial statements.

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IZEA, Inc.
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | $1,058,836 | $1,052,675 | $3,908,221 | $2,821,354 |
| Cost of sales | 434,019 | 483,729 | 1,593,790 | 1,306,463 |
| Gross profit | 624,817 | 568,946 | 2,314,431 | 1,514,891 |
| Operating expenses: | | | | |
| General and administrative | 1,335,858 | 1,921,719 | 4,807,610 | 3,818,250 |
| Sales and marketing | 219,584 | 277,469 | 1,017,179 | 588,903 |
| Total operating expenses | 1,555,442 | 2,199,188 | 5,824,789 | 4,407,153 |
| Loss from operations | (930,625) | (1,630,242) | (3,510,358) | (2,892,262) |
| Other income (expense): | | | | |
| Interest expense | (33,495) | (4,939) | (77,762) | (19,971) |
| Loss on exchange and change in fair value of derivatives, net | 12,550 | 43,780 | (120,484) | 73,571 |
| Other income (expense), net | — | 27 | 455 | 65 |
| Total other income (expense) | (20,945) | 38,868 | (197,791) | 53,665 |
| Net loss | $(951,570) | $(1,591,374) | $(3,708,149) | $(2,838,597) |
| Weighted average common shares outstanding – basic and diluted | 2,265,222 | 959,470 | 2,266,524 | 493,715 |
| Loss per common share – basic and diluted | $(0.42) | $(1.66) | $(1.64) | $(5.75) |

See accompanying notes to unaudited consolidated financial statements.

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IZEA, Inc.
Consolidated Statement of Stockholders' Deficit
(Unaudited)

| | Series A Convertible Preferred Stock | | Common Stock | | Additional Paid-In | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amt | Shares | Amt | Capital | Deficit | (Deficit) |
| Balance, December 31, 2011 | 230 | $— | 966,227 | $97 | $16,279,252 | $(18,130,784) | $(1,851,435) |
| Sale of common stock, net of offering costs | — | — | 2,636,336 | 263 | 2,996,466 | — | 2,996,729 |
| Conversion of preferred stock | (225) | — | 170,455 | 17 | (17) | — | — |
| Exchange of warrants for common stock | — | — | 135,782 | 13 | 821,933 | — | 821,946 |
| Exercise of stock options | — | — | 551 | 1 | 1,098 | — | 1,099 |
| Stock issued for payment of services | — | — | 207,942 | 21 | 733,013 | — | 733,034 |
| Stock-based compensation | — | — | — | — | 150,878 | — | 150,878 |
| Rounding shares | — | — | 167 | — | — | — | — |
| Net loss | — | — | — | — | — | (3,708,149) | (3,708,149) |
| Balance, September 30, 2012 | 5 | $— | 4,117,460 | $412 | $20,982,623 | $(21,838,933) | $(855,898) |

See accompanying notes to unaudited consolidated financial statements.

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IZEA, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

| | Nine Months Ended September 30, 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(3,708,149) | $(2,838,597) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | |
| Depreciation and amortization | 87,422 | 33,187 |
| Stock-based compensation | 150,878 | 48,035 |
| Stock issued for payment of services | 668,415 | 82,500 |
| Loss on exchange and change in fair value of derivatives, net | 120,484 | (73,571) |
| Cash provided by (used for): | | |
| Accounts receivable, net | (2,119) | (491,890) |
| Prepaid expenses and other current assets | 109,998 | (596,499) |
| Accounts payable | (28,615) | 249,263 |
| Accrued payroll | 22,149 | 59,237 |
| Unearned revenue | 102,607 | 374,386 |
| Deferred rent | (8,500) | (9,220) |
| Net cash used for operating activities | (2,485,430) | (3,163,169) |
| | | |
| Cash flows from investing activities: | | |
| Purchase of equipment | (9,009) | (3,051) |
| Return of deposits | 3,650 | (12,698) |
| Net cash used for investing activities | (5,359) | (15,749) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from issuance of notes payable, net | 543,700 | 500,000 |
| Proceeds from issuance of common and preferred stock and warrants, net | 3,045,899 | 2,557,473 |
| Proceeds from exercise of stock options | 1,099 | 1,599 |
| Payments on notes payable and capital leases | (21,174) | (268,156) |
| Net cash provided by financing activities | 3,569,524 | 2,790,916 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 1,078,735 | (388,002) |
| Cash and cash equivalents, beginning of year | 225,277 | 1,503,105 |
| | | |
| Cash and cash equivalents, end of period | $1,304,012 | $1,115,103 |
| | | |
| Supplemental cash flow information: | | |
| Cash paid during period for interest | $6,222 | $18,866 |
| | | |
| Non-cash financing and investing activities: | | |
| Fair value of compound embedded derivative in promissory notes | $27,776 | $— |
| Value of common stock issued for deferred finance costs and future services | $64,619 | $82,500 |
| Fair value of warrants issued | $49,170 | $1,084,970 |
| Promissory note exchanged in financing arrangement | $— | $500,000 |
| Acquisition of assets through capital lease | $— | $50,379 |

See accompanying notes to unaudited consolidated financial statements.

IZEA, Inc.
Notes to Unaudited Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information
The accompanying consolidated balance sheet as of September 30, 2012, the consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011, the consolidated statement of stockholders' deficit for the nine months ended September 30, 2012 and the consolidated statements of cash flows for the nine months ended September 30, 2012 and 2011 are unaudited but include all adjustments that are, in the opinion of management, necessary for a fair presentation of our financial position at such dates and our results of operations and cash flows for the periods then ended in conformity with U.S. generally accepted accounting principles (“US GAAP”). The consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated financial statements at that date but, in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"), does not include all of the information and notes required by US GAAP for complete financial statements. Operating results for the nine months ended September 30, 2012 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, 2011 included in the Company's Annual Report on Form 10-K filed with the SEC on March 28, 2012.

Nature of Business and Reverse Merger and Recapitalization
IZEA, Inc. (the "Company"), formerly known as IZEA Holdings, Inc. and before that, Rapid Holdings, Inc., was incorporated in Nevada on March 22, 2010. On May 12, 2011, the Company completed a share exchange pursuant to which it acquired all of the capital stock of IZEA Innovations, Inc. ("IZEA"), which became its wholly owned subsidiary. IZEA was incorporated in the state of Florida in February 2006 and was later reincorporated in the state of Delaware in September 2006 and changed its name to IZEA, Inc. from PayPerPost, Inc. on November 2, 2007. In connection with the share exchange, the Company discontinued its former business and continued the social media sponsorship business of IZEA as its sole line of business. On November 23, 2011, the Company changed its name from "IZEA Holdings, Inc." to "IZEA, Inc." and the name of its subsidiary changed from "IZEA, Inc." to "IZEA Innovations, Inc." (collectively, the "Company"). The Company's headquarters are in Orlando, FL.

The share exchange was accounted for as a reverse-merger and recapitalization where IZEA was the acquirer for accounting purposes and IZEA, Inc. was the acquired company. Accordingly, IZEA's historical financial statements for periods prior to the acquisition have become the Company's retroactively restated for, and giving effect to, the number of shares received in the share exchange. The assets, liabilities and accumulated earnings, along with operations, reported in the financial statements prior to the share exchange are those of IZEA and are recorded at the historical cost basis.

The Company is a leading company in the growing social media sponsorship ("SMS") segment of social media, operating multiple marketplaces that include its premier platforms SocialSpark, SponsoredTweets and WeReward, as well as its legacy platforms PayPerPost and InPostLinks. The Company recently launched a new SMS platform called Staree and a display advertising network to use within its platforms called IZEAMedia. SMS is when a company compensates a social media publisher to share sponsored content within their social network. The Company's premier platforms are the focus of its current business for which it is actively developing new features. The Company generates its primary revenue through the sale of SMS to the Company's advertisers. The Company fulfills the SMS transaction through its marketplace platforms by connecting its social media publishers such as bloggers, tweeters and mobile application users with its advertisers.

Reverse Stock Split

On July 30, 2012, the Company filed a Certificate of Change with the Secretary of State of Nevada to effect a reverse stock split of the issued and outstanding shares of its common stock at a ratio of one share for every 40 shares outstanding prior to the effective date of the reverse stock split. Additionally, the Company's total authorized shares of common stock were decreased from 500,000,000 shares to 12,500,000 shares. All current and historical information contained herein related to the share and per share information for the Company's common stock or stock equivalents issued on or after May 12, 2011 reflects the 1-for-40 reverse stock split of the Company's outstanding shares of common stock that became market effective on August 1, 2012.

Principles of Consolidation

The consolidated financial statements include the accounts of IZEA, Inc. as of the date of the reverse merger, and its wholly owned subsidiary, IZEA Innovations, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

IZEA, Inc.
Notes to Unaudited Consolidated Financial Statements

Going Concern and Management's Plans
The opinion of the Company's independent registered public accounting firm on the audited financial statements as of and for the year ended December 31, 2011 contains an explanatory paragraph regarding substantial doubt about the Company's ability to continue as a going concern.

The Company has incurred significant losses from operations since inception and has an accumulated deficit of $21,838,933 as of September 30, 2012. Net losses for the nine months ended September 30, 2012 and for the year ended December 31, 2011 were $3,708,149 and $3,978,592, respectively. The Company's ability to continue as a going concern is dependent upon raising capital from financing transactions. The Company's financial statements have been prepared on the basis that it is a going concern, which assumes continuity of operations and the realization of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments that might result if the Company was forced to discontinue its operations.

Management is expecting to issue shares for a portion or all of the amount due on its notes payable (see Note 2) and is in discussions with several parties to establish a line of credit or other financing options in order to meet the needs of the Company's operations and future growth plans. Other financing transactions may include the issuance of equity or convertible debt securities, obtaining credit facilities, or other financing alternatives. The volatility and sharp decline in the trading price of the Company's common stock over the past year could make it more difficult to obtain financing through the issuance of equity or convertible debt securities. Furthermore, if the Company issues additional equity or convertible debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of the Company's common stock.

There can be no assurance that the Company will be successful in any future financing or that the terms of any such financing transactions will not result in the issuance, or potential issuance, of a significant amount of equity securities that will cause substantial dilution to the Company's stockholders. The inability to obtain additional capital may restrict the Company's ability to grow and may reduce its ability to continue to conduct business operations. If the Company is unable to obtain additional financing, it may have to curtail its marketing and development plans and possibly cease operations.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable and Concentration of Credit Risk
Accounts receivable are customer obligations due under normal trade terms. Uncollectability 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", defined as an order created by an advertiser for a publisher to write about the advertiser's product. 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. Management determines the collectability of accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. The Company has recorded a reserve for doubtful accounts of $10,000 as of September 30, 2012 and December 31, 2011. 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.

Concentrations of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company also 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. At September 30, 2012, two customers, each of which accounted for more than 10% of the Company’s accounts receivable, accounted for 26% of total accounts receivable in aggregate. At December 31, 2011, the Company had two different customers which accounted for 32% of total accounts receivable in aggregate. The Company had no customers that accounted for more than 10% of its revenue during the three and nine months ended September 30, 2012. The Company had one customer that accounted for 14% of its revenue and no customers that accounted for more than 10% of revenue during the three and nine months ended September 30, 2011, respectively.

Property and Equipment

Depreciation and amortization is computed using the straight-line method and half-year convention over the estimated useful lives of the assets as follows:

IZEA, Inc.
Notes to Unaudited Consolidated Financial Statements

| | |
|---|---|
| Equipment | 3 years |
| Furniture and fixtures | 5 - 10 years |
| Software | 3 years |
| Leasehold improvements | 3 years |

Major additions and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. When assets are retired or otherwise disposed of, related costs and accumulated depreciation and amortization are removed and any gain or loss is reported as other income or expense.

Impairment of Long-Lived Assets
The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets.

Revenue Recognition
The Company derives its revenue from three sources: revenue from an advertiser for the use of the Company's network of social media publishers to fulfill advertiser sponsor requests for a blog post, tweet, click, purchase, or action ("Sponsored Revenue"), revenue from the posting of targeted display advertising ("Media Revenue") and revenue derived from various service fees charged to advertisers and publishers ("Service Fee Revenue"). Service fees to advertisers include fees charged for management of advertising campaigns through the Company's platforms and inactivity fees for dormant accounts. Service fees to publishers include upgrade account fees for obtaining greater visibility to advertisers in advertiser searches in the Company's platforms, early cash out fees and inactivity fees for dormant accounts. Media Revenue is generated when the Company's publishers place targeted display advertising in blogs. Sponsored revenue is recognized and considered earned after an advertiser's opportunity is posted on the Company's websites and their request was completed and content listed, as applicable, by the Company's publishers for a requisite period of time. The requisite period ranges from 3 days for an action or tweet to 30 days for a blog. Customers may prepay for services by placing a deposit in their account with the Company. In these cases, the deposits are recorded as unearned revenue until earned as described above. Service fees are recognized upon completion of the management of an advertiser's campaign or immediately when the maintenance or enhancement service is performed for an advertiser or publisher. All of the Company's revenue is generated through the rendering of services and is recognized under the general guidelines of SAB Topic 13 A.1 which states that revenue will be recognized when it is realized or realizable and earned. The Company considers its revenue as generally realized or realizable and earned once i) persuasive evidence of an arrangement exists, ii) services have been rendered, iii) the price to the advertiser or customer is fixed (required to be paid at a set amount that is not subject to refund or adjustment) and determinable, and iv) collectability is reasonably assured. The Company records revenue on the gross amount earned since it generally is the primary obligor in the arrangement, establishes the pricing and determines the service specifications.

Advertising Costs
Advertising costs are charged to expense as they are incurred, including payments to contact creators to promote the Company. Advertising expense charged to operations for the three months ended September 30, 2012 and 2011 were approximately $60,000 and $147,000, respectively. Advertising expense charged to operations for the nine months ended September 30, 2012 and 2011 were approximately $391,000 and $367,000, respectively. Advertising costs are included in sales and marketing expense in the accompanying consolidated statements of operations.

Deferred Rent

The Company's operating lease for its office facilities contains predetermined fixed increases of the base rental rate during the lease term which is being recognized as rental expense on a straight-line basis over the lease term. The Company records the difference between the amounts charged to operations and amounts payable under the lease as deferred rent in the accompanying consolidated balance sheets.

Income Taxes

The Company has not recorded current 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.

IZEA, Inc.
Notes to Unaudited Consolidated Financial Statements

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 remaining open tax years subject to examination by the Internal Revenue Service include the years ended December 31, 2008 through 2011.

Convertible Preferred Stock
The Company accounts for its convertible preferred stock under the provisions of Accounting Standards Codification ("ASC") on Distinguishing Liabilities from Equity, which sets forth the standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The ASC requires an issuer to classify a financial instrument that is within the scope of the ASC as a liability if such financial instrument embodies an unconditional obligation to redeem the instrument at a specified date and/or upon an event certain to occur. The Company determined that IZEA's preferred stock outstanding prior to May 12, 2011 did not meet the criteria requiring liability classification as its obligation to redeem these instruments was not based on an event certain to occur. The Series A Convertible Preferred Stock of the Company issued in May 2011 does not have a redemption feature. Future changes in the certainty of the Company’s obligation to redeem these instruments could result in a change in classification.

Derivative Financial Instruments
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 convertible debt and 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.

Beneficial Conversion and Warrant Valuation
The Company records a beneficial conversion feature (“BCF”) related to the issuance of convertible debt and equity instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation are recognized a) for convertible debt as interest expense over the term of the debt, using the effective interest method or b) for convertible preferred stock as dividends at the time the stock first becomes convertible.

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. 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.
- 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 the warrant liability and its compound embedded derivative as of September 30, 2012 (see Note 3).

IZEA, Inc.
Notes to Unaudited Consolidated Financial Statements

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, accounts receivable, accounts payable and accrued expenses. The fair value of the Company's notes payable and capital lease 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 2007 Equity Incentive Plan and the May 2011 and August 2011 Plans (together the "2011 Equity Incentive Plans") (see Note 4) is measured at 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 noted in the table below. The Company estimates the volatility of its common stock at the date of grant based on the volatility of comparable peer companies which are publicly traded. 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 2007 and the 2011 Equity Incentive Plans during the three and nine months ended September 30, 2012 and 2011:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| 2007 Equity Incentive Plan Assumptions | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Expected term | n/a | n/a | n/a | 5 years |
| Weighted average volatility | n/a | n/a | n/a | 54.96% |
| Weighted average risk free interest rate | n/a | n/a | n/a | 2.36% |
| Expected dividends | n/a | n/a | n/a | — |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| 2011 Equity Incentive Plan Assumptions | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Expected term | 5 years | 5 years | 5 years | 5 years |
| Weighted average volatility | 54.46% | 54.89% | 54.90% | 55.05% |
| Weighted average risk free interest rate | 0.65% | 1.64% | 0.75% | 1.84% |
| 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 also impact the amount of unamortized compensation expense to be recognized in future periods. Current average expected forfeiture rates were 50.21% during the three and nine months ended September 30, 2012 and 2011.

Non-Employee Stock-Based Compensation
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" (formerly EITF 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services," and EITF 00-18 "Accounting Recognition for Certain Transactions Involving Equity

Instruments Granted to Other Than 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. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable.

Segment Information

The Company does not identify separate operating segments for management reporting purposes. The results of operations are the basis on which management evaluates operations and makes business decisions.

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Notes to Unaudited Consolidated Financial Statements

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Recent Accounting Pronouncements
There are several new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective. Management does not believe any of these accounting pronouncements will be applicable and therefore will not have a material impact on the Company's financial position or operating results.

Reclassifications
Certain items have been reclassified in the 2011 financial statements to conform to the 2012 presentation.

NOTE 2. NOTES PAYABLE

On February 3, 2012, the Company issued a senior secured promissory note in the principal amount of $550,000 with an original issuance discount of $50,000, plus $3,500 in lender fees to two of its existing shareholders. In connection with the note, the Company incurred expenses of $21,800 for legal and other fees. Accordingly, net cash proceeds from the note amounted to $474,700. Unless earlier converted, exchanged or prepaid, the note matures on February 2, 2013. The note may be prepaid by the Company at any time. The obligations under the note are first priority senior secured obligations (subject to an equipment lease) and are secured by substantially all of the Company's assets. The face value of the note may be exchanged at the option of the holders into the applicable dollar amount of equity securities issued by the Company in a subsequent financing. The holders may convert the outstanding principal amount of the note at a conversion price of 90% of the closing price of the Company's common stock on the trading day prior to the date that the note becomes convertible, subject to further adjustment in the case of stock splits, reclassifications, reorganizations, certain issuances at less than the conversion price and the like. The Company is further subject to certain liquidated damages if it fails to timely effectuate a conversion under the terms of the note. Until such time that the note is no longer outstanding, without the consent of the holders, the Company is prohibited from incurring certain debt, selling any account receivable or declaring any dividend. The carrying value of this $550,000 note, inclusive of interest amortization as of September 30, 2012, was $527,183.

On May 4, 2012, the Company issued a 30-day promissory note to two of its existing shareholders in the principal amount of $75,000 incurring $6,000 in expenses for legal fees which resulted in net proceeds of $69,000. In June 2012, the note was extended until December 4, 2012 and the parties agreed that the noteholders could convert the note at any time on or before the maturity date into shares of common stock at a conversion price equal to the lower of (i) $5.00 per share or (ii) 90% of the then market price based on a volume weighted average price per share of the Company's common stock as quoted on Bloomberg for the ten trading days prior to the conversion date. The note bears interest at a rate of 8% per annum with a default rate of 18% per annum. The note automatically will convert into shares of the Company's common stock if the Company completes a public offering of its securities for gross proceeds of not less than $10,000,000. The carrying value of this $75,000 note, inclusive of interest amortization as of September 30, 2012, was $69,381.

Proceeds from the note financings were allocated first to the embedded conversion option (see Note 3) that required bifurcation and recognition as a liability at fair value and then to the carrying value of the notes. The carrying value of the notes is subject to amortization, through charges to interest expense, over the term to maturity using the effective interest method. During the three and nine months ended September 30, 2012, interest expense on the notes amounted to $24,138 and $52,840, respectively. Direct finance costs allocated to the embedded derivatives were expensed in full upon issuance of the notes. Direct finance costs allocated to the notes are subject to amortization, through charges to interest expense, using the effective interest method. During the three and nine months ended September 30, 2012, interest expense related to the amortization of finance costs amounted to $7,666 and $18,700, respectively.

NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are defined as financial instruments or other contracts that contain a notional amount and one or more underlying (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, in rare instances, assets. The

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Company generally does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company entered into financing transactions during 2011 and the nine months ended September 30, 2012 that gave rise to derivative liabilities. These financial instruments are carried as derivative liabilities, at fair value, in the Company's financial statements. Changes in the fair value of derivative financial instruments are required to be recorded in other income in the period of change. Accordingly, all income and expense amounts discussed below are reflected in the Company's consolidated statements of operations in other income under loss on exchange and change in fair value of derivatives.

The following table summarizes the Company's activity and fair value calculations of its derivative warrants and convertible promissory notes for the nine months ended September 30, 2012.

| | Linked Common Shares to Derivative Warrants | Warrant Liability | Linked Common Shares to Promissory Notes | Compound Embedded Derivatives |
|---|---|---|---|---|
| Beginning balance, December 31, 2011 | 154,132 | $752,486 | — | $— |
| Issuance of promissory note with compound embedded derivative - February 3, 2012 | — | — | 23,416 | 12,151 |
| Issuance of $75,000 promissory note with compound embedded derivative - June 6, 2012 | — | — | 26,042 | 15,625 |
| Issuance of warrants to underwriters - September 11, 2012 | 110,000 | 49,170 | — | — |
| Exchange of warrants for common stock | (135,782) | (19,823) | — | — |
| Change in fair value of derivatives | — | (738,628) | 623,279 | 56,989 |
| Ending balance, September 30, 2012 | 128,350 | $43,205 | 672,737 | $84,765 |

The Company calculated the fair value of its warrant liability and compound embedded derivatives using the valuation methods and inputs described below.

Derivative Warrants
On September 11, 2012, the Company closed on a public offering of 2,200,000 shares of its common stock at an offering price of $1.00 per share and issued warrants to the underwriter to purchase 110,000 shares of common stock, which had a fair value of $49,170 (see Note 4). The Company determined that these warrants required classification as a liability and recorded this value on the balance sheet as a Warrant Liability.

In applying current accounting standards to the 153,882 warrant shares issued in the May 2011 Offering, the110,000 warrant shares issued in the September 2012 public offering (see Note 4) and the 250 warrant shares issued in July 2011 during a customer list acquisition, the Company determined that the warrants require classification as a liability due to certain registration rights and listing requirements in the agreement.

The Company recorded income resulting from the change in the fair value of the warrants during the three and nine months ended September 30, 2012 in the amount of $10,903 and $738,628, respectively. The Company recorded income resulting from the change in the fair value of the warrants during the three and nine months ended September 30, 2011 in the amount of $43,780 and $73,571, respectively.

From May through August 2012, pursuant to separate private transactions with twenty five warrant holders, the Company redeemed warrants to purchase an aggregate of 135,782 shares of common stock for the same number of shares without the Company receiving any further cash consideration. The redemptions were treated as an exchange wherein the fair value of the newly issued common stock was recorded and the difference between that and the carrying value of the warrants received in the exchange is recorded in the Company's consolidated statements of operations in other income under loss on exchange and change in fair value of derivatives. As a result of the exchange, the Company recognized a loss on the exchange of these warrants in the amount of $37,610 and $802,123 during the three and nine months ended September 30, 2012, respectively.

The derivative warrants were valued using a Binomial Lattice Option Valuation Technique (“Binomial”). Significant inputs into this technique on September 30, 2012 and 2011 are as follows:

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| Binomial Assumptions | September 30, 2012 | September 30, 2011 |
|---|---|---|
| Fair market value of asset [(1)] | $0.88 | $13.20 |
| Exercise price | $20.00 | $20.00 |
| Term [(2)] | 3.6 years | 4.6--4.9 Years |
| Implied expected life [(3)] | 3.6 years | 4.5--4.8 Years |
| Volatility range of inputs [(4)] | 49.6%--70.5% | 62.2%--93.6% |
| Equivalent volatility [(3)] | 58.30% | 75.2% |
| Risk-free interest rate range of inputs [(5)] | 0.10%--0.31% | 0.02%--0.96% |
| Equivalent risk-free interest rate [(3)] | 0.19% | 0.28%--0.33% |

(1) The fair market value of the asset was determined by the Company using all available information including, but not limited to the trading market price and the actual, negotiated prices paid by the independent investors in the May 2011 Offering and a private offering in December 2011.

(2) The term is the contractual remaining term, allocated among twelve equal intervals for purposes of calculating other inputs, such as volatility and risk-free rate.

(3) The implied expected life, and equivalent volatility and risk-free interest rate amounts are derived from the Binomial.

(4) The Company does not have a market trading history upon which to base its forward-looking volatility. Accordingly, the Company selected peer companies that provided a reasonable basis upon which to calculate volatility for each of the intervals described in (1), above.

(5) The risk-free rates used for inputs represent the yields on zero coupon US Government Securities with periods to maturity consistent with the intervals described in (1), above.

Compound Embedded Derivative
The Company concluded that the compound embedded derivative in its $550,000 senior secured promissory note issued on February 3, 2012 and its $75,000 convertible promissory note as modified on June 6, 2012 (see Note 2) required bifurcation and liability classification as derivative financial instruments as they were not considered indexed to the Company's own stock as defined in ASC 815, Derivatives and Hedging. The Company recorded income (expense) resulting from the change in the fair value of the compound embedded derivative during the three and nine months ended September 30, 2012 in the amount of $39,257 and $(56,989), respectively.

The Monte Carlo Simulation (“MCS”) technique was used to calculate the fair value of the compound embedded derivative because it provides for the necessary assumptions and inputs. The MCS technique, which is an option-based model, is a generally accepted valuation technique for valuing embedded conversion features in hybrid convertible notes, because it is an open-ended valuation model that embodies all significant assumption types, and ranges of assumption inputs that the Company agrees would likely be considered in connection with the arms-length negotiation related to the transference of the instrument by market participants. In addition to the typical assumptions in a closed-end option model, such as volatility and a risk free rate, MCS incorporates assumptions for interest risk, credit risk and redemption behavior. In addition, MCS breaks down the time to expiration into potentially a large population of time intervals and steps. However, there may be other circumstances or considerations, other than those addressed herein, that relate to both internal and external factors that would be considered by market participants as it relates specifically to the Company and the subject financial instruments. The effects, if any, of these considerations cannot be reasonably measured, quantified or qualified.

The following table shows the summary calculations arriving at the compound embedded derivative values as of February 3, 2012 , June 6, 2012 and September 30, 2012. See the assumption details for the composition of these calculations.

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| Compound Embedded Derivative | February 3, 2012 | June 6, 2012 | September 30, 2012 |
|---|---|---|---|
| Notional amount | $505,785 | $75,000 | $532,808 |
| Conversion price | 21.60 | 2.88 | 0.79 |
| Linked common shares (1) | 23,416 | 26,042 | 672,737 |
| MCS value per linked common share (2) | 0.52 | 0.60 | 0.13 |
| Total | $12,151 | $15,625 | $84,765 |

(1) The Compound Embedded Derivative is linked to a variable number of common shares based upon a percentage of the Company's closing stock price as reflected in the over-the-counter market. The number of linked shares will increase as the trading market price decreases and will decrease as the trading market price increases. The fluctuation in the number of linked common shares will have an effect on fair values in future periods.

(2) The Note embodied a contingent conversion feature that was predicated upon a financing transaction that was planned for a date between the issuance date and March 2, 2012. If the financing occurred, the maturity date of the Note was August 2, 2012. If the financing did not occur, the maturity date of the Note was February 2, 2013. While, in hindsight, the financing did not occur, the calculation of value must consider that on the issuance date the contingency was present and resulted in multiple scenarios of outcome as it related to the conversion feature subject to bifurcation. The mechanism for building this contingency into the MCS value was to perform two separate calculations of value and weight them on a reasonable basis.

Significant inputs into the Monte Carlo Simulation used to calculate the compound embedded derivative values as of February 3, 2012, June 6, 2012 and September 30, 2012 are as follows:

| Monte Carlo Assumptions | Inception Date February 3, 2012 | Inception Date June 6, 2012 | September 30, 2012 |
|---|---|---|---|
| Fair market value of asset (1) | $12.50 | $3.20 | $0.88 |
| Conversion price | $21.60 | $2.88 | $0.79 |
| Term (2) | .5 - 1 year | 0.60 years | 0.34 years |
| Implied expected life (3) | 0.74 years | 0.58 years | 0.34 years |
| Volatility range of inputs (4) | 44.23%--70.30% | 53.54%--68.00% | 39.91%--49.84% |
| Equivalent volatility (3) | 55.9% | 59.2% | 45.4% |
| Risk adjusted interest rate range of inputs (5) | 10.00%--30.95% | 7.62%--12.33% | 8.18%--10.00% |
| Equivalent risk-adjusted interest rate (3) | 16.43% | 9.33% | 9.19% |
| Credit risk-adjusted interest rate (6) | 12.71% | 15.74% | 14.90% |

(1) The fair market value of the asset was determined by management using all available information including, but not limited to the trading market price and the actual, negotiated prices paid by a private offering in December 2011.

(2) The term is the contractual remaining term, allocated among twelve equal intervals for purposes of calculating other inputs, such as volatility and risk-free rate.

(3) The implied expected life, and equivalent volatility and risk-free risk-adjusted interest rate amounts are derived from the MCS.

(4) The Company does not have a market trading history upon which to base its forward-looking volatility. Accordingly, the Company selected peer companies that provided a reasonable basis upon which to calculate volatility

for each of the intervals described in (1), above.

(5) CED's bifurcated from debt instruments are expected to contain an element of market interest risk. That is, the risk that market driven interest rates will change during the term of a fixed rate debt instrument.

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(6) The Company utilized a yield approach in developing its credit risk assumption. The yield approach assumes that the investor's yield on the instrument embodies a risk component, generally, equal to the difference between the actual yield and the yield for a similar instrument without regard to risk.

NOTE 4. STOCKHOLDERS' DEFICIT

Stock Financing Transactions and Registration Rights
On May 24, 2011, May 26, 2011 and August 15, 2011, the Company entered into subscription agreements with certain investors (the “Investors”) whereby it raised $3,330,000 through the sale of 333 units (the “Units”), at a purchase price of $10,000 per Unit (the “May 2011 Offering”). Each Unit consisted of either (i) approximately 758 shares of the Company’s common stock or (ii) one share of the Company’s Series A convertible preferred stock, par value $.0001 per share, which is convertible into approximately 758 shares of common stock, plus a fully exercisable, five-year warrant to purchase approximately 455 shares of common stock for $9,091 or $20 per linked share of common stock (the “Warrants”).

As a result of the May 2011 Offering, Investors who purchased 230 Units elected to receive preferred stock and Investors who purchased 103 Units elected to receive common stock. Accordingly, the Company issued (i) 78,030 shares of common stock, (ii) 230 shares of Series A preferred stock, which are linked by conversion to 174,243 shares of common stock, and (iii) 333 warrant contracts that are linked by exercise to an aggregate of 151,382 shares of common stock.

In connection with the May 2011 Offering, the Company incurred expenses of $286,593 for placement agent, legal and other fees. Accordingly, net cash proceeds from the May 2011 Offering amounted to $3,043,407. Additionally, the Company issued warrants to the placement agent to purchase 2,500 shares of common stock, which had a fair value of $17,600, with the same terms and conditions as the Warrants issued to the investors in the May 2011 Offering.

In May and June 2012, in accordance with the terms of the May 2011 Offering financing documents, investors converted 225 shares of the Series A preferred stock into 170,455 shares of common stock. As of September 30, 2012, only 5 shares of the Series A preferred stock remained outstanding.

From May through August 2012, pursuant to separate private transactions with twenty five warrant holders, the Company redeemed warrants to purchase an aggregate of 135,782 shares of common stock for the same number of shares without the Company receiving any further cash consideration. These transactions were effected in order to reduce the substantial overhang represented by the warrants issued in the May 2011 reverse merger and private placement. As a result of the exchange, the Company recognized a loss on the exchange of these warrants in the amount of $37,610 and $802,123 during the three and nine months ended September 30, 2012 (see Note 3).

On May 8 and 15, 2012, the Company sold a total of 274,224 shares of its common stock at a purchase price of $5.00 per share, receiving gross proceeds of $1,371,120, in a private placement to accredited investors, pursuant to the terms of a Common Stock Purchase Agreement. The Company incurred expenses of $149,262 in regards to the private placement and thus received $1,221,858 in net proceeds. Pursuant to the terms of a Registration Rights Agreement, the Company timely filed a registration statement with the SEC for purposes of registering the resale of the shares of common stock sold in the private placement on June 6, 2012. This registration statement was declared effective by the SEC on September 5, 2012.

On August 1, 2012, Edward H. (Ted) Murphy, the Company's President and Chief Executive Officer, purchased 8,000 shares of the Company's common stock directly from the Company in a private transaction approved by disinterested members of the Company's board of directors. Mr. Murphy paid a total purchase price of $19,200 or $2.40 per common share, the market price on August 1, 2012.

On August 6, 2012, Ryan S. Schram, the Company's Chief Operating Officer, purchased 8,000 shares of the Company's common stock directly from the Company in a private transaction approved by the Company's board of directors. Mr. Schram paid a total purchase price of $19,200 or $2.40 per common share, the market price on August 6, 2012.

On August 6, 2012, Brian W. Brady, a private investor who became a director of the Company on August 7, 2012, made a private investment of $100,000 for the purchase of 41,667 shares of the Company's common stock at $2.40 per share. In accordance with the terms of the stock subscription agreement, if the Company's future public offering as discussed below was priced and sold below $2.40 per share within 120 days following the closing of his investment, the Company would issue additional shares to him, effectively adjusting the purchase price per share to 10% below the public offering price, with a floor of $0.50 per share. Mr. Brady also received 35,000 shares of the Company's restricted common stock and received a $10,000 cash finance fee upon the

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closing of the public offering. On September 11, 2012, the Company issued an additional 69,445 shares of common stock to Mr. Brady, so that he received a total of 111,112 shares at an effective price of $0.90 per share.

On September 11, 2012, the Company closed on a public offering of 2,200,000 shares of its common stock at an offering price of $1.00 per share, receiving gross proceeds of $2,200,000. In connection with the September 2012 offering, the Company incurred expenses of $504,359 for underwriter fees, legal and other expenses. Accordingly, net cash proceeds from the September 2012 offering amounted to $1,695,641. Additionally, the Company issued warrants to the underwriter to purchase 110,000 shares of common stock, which had a fair value of $49,170 that was recorded as an additional cost of the offering. The warrants are fully exercisable after August 23, 2013 at an exercise price of $1.25 per share and expire on August 23, 2017.

Stock Options
In February 2007, the board of directors adopted the 2007 Equity Incentive Plan (the “2007 Plan”). The 2007 Plan allowed the Company to provide options as an incentive for employees and consultants.  On May 11, 2011, the 2007 Plan was amended to increase the number available for issuance under the 2007 Plan from 2,313,317 to 4,889,829 shares of Series A common stock. In connection with a share exchange on May 12, 2011, all of the outstanding stock options to purchase 3,712,365 shares of Series A common stock under the 2007 Plan were canceled, effectively terminating the 2007 Plan. The Company simultaneously issued new stock options for 92,823 shares of common stock to the same employees under a new 2011 Equity Incentive Plan of IZEA, Inc. adopted on May 12, 2011 (the “May 2011 Plan”). The cancellation and replacement of the stock options under the 2007 Plan were accounted for as a modification of the terms of the canceled awards. There was a minimal incremental difference required to be recorded on 2,743 shares where the fair value of the replacement options exceeded the fair value of the canceled options at the date of cancellation and replacement. On May 25, 2012, upon consent from holders of a majority of the Company's outstanding voting capital stock, the Company increased the number of common shares available for issuance under the May 2011 Plan from 177,500 to 613,715 shares. As of September 30, 2012, 355,994 option shares have been granted and are outstanding and 1,230 have been exercised, leaving an aggregate of 256,491 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 of IZEA, Inc. (the “August 2011 Plan”) reserving for issuance an aggregate of 87,500 shares of common stock under the August 2011 Plan. As of September 30, 2012, 37,500 option shares have been granted and are outstanding, leaving 75,000 shares of common stock available for for future grants under the August 2011 Plan.

Under both the May 2011 Plan and the August 2011 Plan, the board of directors 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 of directors at the time of grant, the right to purchase shares covered by any options under the May and August 2011 Plans shall vest 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 3 years. The term of the options is up to 10 years.

A summary of option activity under the May and August 2011 Plans for the year ended December 31, 2011 and the nine months ended September 30, 2012 is presented below:

| Options Outstanding | Common Shares | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Outstanding at December 31, 2010 | — | $— | |
| Granted | 119,707 | 17.09 | |
| Exercised | (683) | 2.00 | |
| Forfeited | (4,579) | 6.18 | |
| Outstanding at December 31, 2011 | 114,445 | $17.61 | 4.4 |
| Granted | 377,043 | 5.76 | |
| Exercised | (551) | 2.00 | |
| Forfeited | (97,443) | 19.02 | |
| Outstanding at September 30, 2012 | 393,494 | $5.93 | 4.6 |
| Exercisable at September 30, 2012 | 76,891 | $5.93 | 4.5 |

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During the three and nine months ended September 30, 2011, options were exercised into 598 shares of the Company's common stock for cash proceeds of $1,599. The intrinsic value of these options was $6,688. During the nine months ended September 30, 2012, options were exercised into 551 shares of the Company's common stock for cash proceeds of $1,099. The intrinsic value of these options was $5,769. There is no aggregate intrinsic value on the exercisable, outstanding options as of September 30, 2012 since the weighted average exercise price exceeded the fair value on such date. In March 2012, the Company modified one employee option agreement whereby it accelerated the vesting on all the remaining 2,329 unvested shares to current day and it extended the exercise period post termination from 90 days to 180 days. The modification resulted in an incremental difference of $11,744 that was recorded and included in stock-based compensation expense during the nine months ended September 30, 2012.

The following table contains summarized information related to nonvested stock options during the year ended December 31, 2011 and the nine months ended September 30, 2012 under the May and August 2011 Plans:

| Nonvested Options | Common Shares | Weighted Average Grant Date Fair Value | Weighted Average Remaining Years to Vest |
|---|---|---|---|
| Nonvested at December 31, 2010 | — | $— | |
| Granted | 119,707 | 2.13 | |
| Vested | (57,969) | 1.52 | |
| Forfeited | (4,222) | 2.27 | |
| Nonvested at December 31, 2011 | 57,516 | $2.73 | 2.5 |
| Granted | 377,043 | 2.18 | |
| Vested | (76,970) | 2.26 | |
| Forfeited | (40,986) | 2.81 | |
| Nonvested at September 30, 2012 | 316,603 | $2.18 | 3.2 |

Total stock-based compensation expense recognized on awards outstanding during the three and nine months ended September 30, 2012 was $31,894 and $150,878, respectively. Total stock-based compensation expense recognized on awards outstanding during the three and nine months ended September 30, 2011 was $32,035 and $48,035, respectively. Future compensation related to nonvested awards expected to vest of $312,127 is estimated to be recognized over the remaining individual vesting periods of up to 5 years.

Restricted Stock Issued for Services
In May 2012 and July 2012, the Company entered into seven agreements for celebrity endorsements of the Company's products and services whereby the Company paid cash of $100,000 and issued a total of 135,521 shares of restricted common stock. In the majority of the agreements, the restricted stock vested 25% immediately upon the signing of the agreements and then vests 6.25% per month over the following twelve months during the term of the agreements.

On June 12, 2012, the Company issued 1,200 shares of restricted common stock to its investors' counsel in order to pay for legal services totaling $6,000 related to the issuance of the $75,000 convertible promissory note.

On July 2, 2012, the Company issued 71,221 shares of restricted common stock to its former legal counsel in order to pay for general legal services totaling $356,103.

In August and September 2012, the Company issued 35,000 and 69,445 shares of restricted common stock as a result of a stock subscription agreement with its director, Brian Brady, as detailed above.

The following tables contain summarized information about nonvested restricted stock outstanding at September 30, 2012:

IZEA, Inc.
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| Restricted Stock | Common Shares |
|---|---|
| Nonvested at December 31, 2011 | — |
| Granted | 312,387 |
| Vested | (238,956 ) |
| Forfeited | — |
| Nonvested at September 30, 2012 | 73,431 |

Stock-based compensation expense recognized for restricted awards issued for services during the three months ended September 30, 2012 was $436,942 of which $80,839 is included in sales and marketing expense and $356,103 is included in general and administrative expense on the consolidated statements of operations. Total stock-based compensation expense recognized for restricted awards issued for services during the nine months ended September 30, 2012 was $668,415 of which $306,312 is included in sales and marketing expense, $356,103 is included in general and administrative expense and $6,000 is included in interest expense on the consolidated statements of operations. Future compensation related to nonvested restricted awards expected to vest and amortization of deferred finance costs of $64,619 is estimated to be recognized over the remaining individual vesting periods of up to nine months.

## NOTE 5. LOSS PER COMMON SHARE

Net losses were reported during the three and nine months ended September 30, 2012 and 2011. As such, the Company excluded the following items from the computation of diluted loss per common share as their effect would be anti-dilutive:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Stock options | 393,494 | 115,467 | 393,494 | 115,467 |
| Warrants | 128,434 | 154,216 | 128,434 | 154,216 |
| Potential conversion of Series A convertible preferred stock | 3,788 | 174,243 | 3,788 | 174,243 |
| Potential conversion of promissory note payable | 789,142 | — | 789,142 | — |
| Total excluded shares | 1,314,858 | 443,926 | 1,314,858 | 443,926 |

## NOTE 6. SUBSEQUENT EVENTS

No material events have occurred since September 30, 2012 that require recognition or disclosure in the financial statements, except as follows:

On October 25, November 2, and November 12, 2012, the noteholders on the Company's $550,000 senior secured promissory note (see Note 2), converted $80,000, $182,700 and $40,000 of note value into 293,363, 580,000 and 123,457 shares of common stock at a conversion rate of $.2727, $.315 and $.324 per share, respectively. The remaining balance on this note as of November 12, 2012 is $247,300.

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## ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Special Note Regarding Forward-Looking Information

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, our consolidated financial statements and related notes included elsewhere in this Report. Historical results and percentage relationships among any amounts in these financial statements are not necessarily indicative of trends in operating results for any future period. This report contains “forward-looking statements.” The statements, which are not historical facts contained in this report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, and notes to our consolidated financial statements, particularly those that utilize terminology such as “may” “will,” “should,” “expects,” “anticipates,” “estimates,” “believes,” or “plans” or comparable termin are forward-looking statements. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and our actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, our ability to raise additional funding, our ability to maintain and grow our business, variability of operating results, our ability to maintain and enhance our brand, our expansion and development of new products and services, marketing and other business development initiatives, competition in the industry, general government regulation, economic conditions, dependence on key personnel, the ability to attract, hire and retain personnel who possess the technical skills and experience necessary to meet the service requirements of our clients, our ability to protect our intellectual property, the potential liability with respect to actions taken by our existing and past employees, risks associated with international sales, and other risks described herein and in our other filings with the Securities and Exchange Commission.

The safe harbor for forward-looking statements provided by Section 21E of the Securities Exchange Act of 1934 excludes issuers of “penny stock” (as defined in Rule 3a51-1 under the Securities Exchange Act of 1934). Our common stock currently falls within that definition.

All forward-looking statements in this document are based on information currently available to us as of the date of this report, and we assume no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

### Company History

IZEA, Inc., formerly known as IZEA Holdings, Inc., and before that Rapid Holdings, Inc., was incorporated in Nevada on March 22, 2010. On May 12, 2011, we completed a share exchange pursuant to which we acquired all of the capital stock of IZEA Innovations, Inc. ("IZEA"), which became our wholly owned subsidiary. IZEA was incorporated in the state of Florida in February 2006 and was later reincorporated in the state of Delaware in September 2006 and changed its name to IZEA, Inc. from PayPerPost, Inc. on November 2, 2007. In connection with the share exchange, we discontinued our former business and continued the SMS business of IZEA as our sole line of business. On November 23, 2011, our name changed from "IZEA Holdings, Inc." to "IZEA, Inc." and the name of our subsidiary changed from "IZEA, Inc." to "IZEA Innovations, Inc."

The share exchange was accounted for as a reverse merger and recapitalization where IZEA was the acquirer for accounting purposes and IZEA, Inc. was the acquired company. Accordingly, IZEA's historical financial statements for periods prior to the acquisition have become ours retroactively restated for, and giving effect to, the number of shares received in the share exchange. The assets, liabilities and accumulated earnings, along with operations, reported in the financial statements prior to the share exchange are those of IZEA and are recorded at the historical cost basis.

On July 30, 2012, we filed a Certificate of Change with the Secretary of State of Nevada to effect a reverse stock split of the issued and outstanding shares of our common stock at a ratio of one share for every 40 shares outstanding prior to the effective date of the reverse stock split. Additionally, our authorized shares of common stock were decreased from 500,000,000 shares to 12,500,000 shares. All current and historical information contained herein related to the share and per share information for our common stock or stock equivalents issued on or after May 12, 2011 reflects the 1-for-40 reverse stock split of our outstanding shares of common stock that became market effective on August 1, 2012.

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Company Overview

We are a leading company in the growing social media sponsorship (SMS) segment of social media, where a company compensates a social media publisher to share sponsored content within their social network. We accomplish this by operating multiple marketplaces that include our premier platforms SocialSpark, SponsoredTweets, Staree and WeReward, as well as our legacy platforms PayPerPost and InPostLinks. Our advertisers include a wide range of small and large businesses, including Fortune 500 companies, as well as advertising agencies. We generate our primary revenue through the sale of SMS to our advertisers. We fulfill the SMS through our marketplace platforms by connecting our social media publishers such as bloggers, tweeters and mobile application users with our advertisers. We also generate revenue from the posting of targeted display advertising and from various service fees.

Results of Operations for the Three Months Ended September 30, 2012 Compared to September 30, 2011

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2012 | 2011 | $ Change | % Change |
| Revenue | $1,058,836 | $1,052,675 | $6,161 | 0.6% |
| Cost of sales | 434,019 | 483,729 | (49,710) | (10.3)% |
| Gross profit | 624,817 | 568,946 | 55,871 | 9.8% |
| Operating expenses: | | | | |
| General and administrative | 1,335,858 | 1,921,719 | (585,861) | (30.5)% |
| Sales and marketing | 219,584 | 277,469 | (57,885) | (20.9)% |
| Total operating expenses | 1,555,442 | 2,199,188 | (643,746) | (29.3)% |
| Loss from operations | (930,625) | (1,630,242) | 699,617 | 42.9% |
| Other income (expense): | | | | |
| Interest expense | (33,495) | (4,939) | (28,556) | 578.2% |
| Loss on exchange and change in fair value of derivatives, net | 12,550 | 43,780 | (31,230) | (71.3)% |
| Other income (expense), net | — | 27 | (27) | (100.0)% |
| Total other income (expense) | (20,945) | 38,868 | (59,813) | 153.9% |
| Net loss | $(951,570) | $(1,591,374) | $639,804 | 40.2% |

Revenues

We derive revenue from three sources: revenue from an advertiser for the use of our network of social media publishers to fulfill advertiser sponsor requests for a blog post, tweet, click, purchase, or action ("Sponsored Revenue"), revenue from the posting of targeted display advertising ("Media Revenue") and revenue derived from various service fees charged to advertisers for management, maintenance and enhancement of their accounts, and to publishers for maintenance and enhancement of their accounts ("Service Fee Revenue").

Revenues for the three months ended September 30, 2012 increased by $6,161, or 0.6%, compared to the same period in 2011. The increase was attributable to an increase of $49,000 in our Sponsored Revenue and $80,000 in our new revenue stream, Media Revenue, offset by a $123,000 decrease in our Service Fee Revenue. In the three months ended September 30, 2012, Sponsored Revenue was 88%, Media Revenue was 7% and Service Fee Revenue was 5% of total revenue compared to Sponsored Revenue of 84% and Service Fee Revenue of 16% in the three months ended September 30, 2011. Sponsored Revenue increased due to the management of several large accounts in the three months ended September 30, 2012. The increase in Media Revenue was due to the implementation of IZEAMedia, our display advertising solution, for our platforms. IZEAMedia is a new feature that allows our publishers to place targeted display advertising in three of our platforms, SocialSpark, PayPerPost and Staree, for which we share revenue with the publisher. Service fees declined during the period because a majority of the fees were initially assessed to our customers in the second and third quarters of 2011 when new service fee policies were implemented.

While we expect that revenue from our legacy platforms, PayPerPost and InPostLinks, will continue to decline in amount and as a percentage of our total revenue, we expect to increase our total revenue by over 15% in 2012 by increasing average revenue per customer, adding features to our existing platforms and introducing new platforms to take advantage of

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social media activities. We believe that locating outside sales executives in close proximity to our customers will help drive a closer relationship with our customers resulting in increased repeat spending and an increase in average revenue per customer. We continuously review our existing platforms and our industry in order to add new features and additional revenue streams. Two current examples are the new revenue stream from IZEAMedia and the introduction of our new platform, www.staree.com. Our Staree platform allows us to further our efforts in social media sponsorships with a site that allows the sharing of sponsored photos and videos.

Cost of Sales and Gross Profit

Our cost of sales comprise primarily of amounts paid to our social media publishers for fulfilling an advertiser's sponsor request for a blog post, tweet, click, purchase or action.

Cost of sales for the three months ended September 30, 2012 decreased by $(49,710), or (10.3)%, compared to the same period in 2011. Cost of sales decreased as a direct result of increased campaign management fees that require less direct publisher costs to generate such revenue. Publisher costs typically range from 50% to 80% of the advertising campaign depending on the type of publisher used in the campaign. Celebrity publishers typically used in our SponsoredTweets marketplace cost more than our average publisher cost of 50% in other marketplaces.

Gross profit for the three months ended September 30, 2012 increased by $55,871, or 9.8%, compared to the same period in 2011. Our gross margin improved by five percentage points to 59% for the three months ended September 30, 2012 as compared to 54% for the same period in 2011. The gross margin increase was primarily attributable to campaign management fee received from advertisers.

Operating Expenses

Operating expenses consist of general and administrative, and sales and marketing expenses. Total operating expenses for the three months ended September 30, 2012 decreased by $(643,746), or (29.3)%, compared to the same period in 2011. The decrease was primarily attributable to the non-recurrence of a large investor relations campaign that was initiated in the second half of 2011 after our reverse merger.

General and administrative expenses consist primarily of payroll, general operating costs, public company costs, facilities costs, insurance, depreciation, professional fees, and investor relations fees. General and administrative expenses for the three months ended September 30, 2012 decreased by $(585,861) or (30.5)%, compared to the same period in 2011. The decrease was primarily attributable to a $672,000 decrease in investor relations fees offset by increased personnel costs due to salary increases.

Sales and marketing expenses consist primarily of compensation for sales and marketing and related support resources, sales commissions and trade show expenses. Sales and marketing expenses for the three months ended September 30, 2012 decreased by $(57,885) or (20.9)%, compared to the same period in 2011. The decrease was primarily attributable to a decrease in public relations expenses.

Other Income (Expense)

Other income (expense) consists primarily of interest expense and the change in the fair value of derivatives.

Interest expense during the three months ended September 30, 2012 increased by $28,556 compared to the same period in 2011 primarily due to the issuance of a senior secured promissory note in the principal amount of $550,000 in February 2012 and a $75,000 promissory note in May 2012. The carrying value and the direct finance costs on the notes are subject to amortization, through charges to interest expense, over the term to maturity using the effective interest method.

We entered into financing transactions during 2012 and 2011 that gave rise to derivative liabilities. These financial instruments are carried as derivative liabilities, at fair value, in our financial statements. Changes in the fair value of derivative financial instruments are required to be recorded in other income (expense) in the period of change. We recorded income resulting from the change in the fair value of certain warrants during the three months ended September 30, 2012 and 2011 in the amount of $10,903 and $43,780, respectively. We recognized a $37,610 loss on exchange when we redeemed certain warrants to purchase an aggregate of 12,730 shares of common stock for the same number of shares without the Company receiving any further cash consideration during the three months ended September 30, 2012. Additionally, we recorded $39,257 in income resulting from the change in the fair value of our compound embedded derivatives in our promissory notes during the three months ended September 30, 2012. The net effect of these changes in fair values resulted in a total income of

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$12,550 and $43,780 during the three months ended September 30, 2012 and 2011, respectively. We have no control over the amount of change in the fair value of our derivative instruments as this is a factor based on fluctuating interest rates and stock prices and other market conditions outside of our control.

Net Loss

Net loss for the three months ended September 30, 2012 was $951,570 which decreased from the net loss of $1,591,374 for the same period in 2011. The decrease in the net loss is primarily attributable to the decrease in investor relations fees as discussed above under Operating Expenses.

Results of Operations for the Nine Months Ended September 30, 2012 Compared to September 30, 2011

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2012 | 2011 | $ Change | % Change |
| Revenue | $3,908,221 | $2,821,354 | $1,086,867 | 38.5 % |
| Cost of sales | 1,593,790 | 1,306,463 | 287,327 | 22.0 % |
| Gross profit | 2,314,431 | 1,514,891 | 799,540 | 52.8 % |
| Operating expenses: | | | | |
| General and administrative | 4,807,610 | 3,818,250 | 989,360 | 25.9 % |
| Sales and marketing | 1,017,179 | 588,903 | 428,276 | 72.7 % |
| Total operating expenses | 5,824,789 | 4,407,153 | 1,417,636 | 32.2 % |
| Loss from operations | (3,510,358) | (2,892,262) | (618,096) | (21.4)% |
| Other income (expense): | | | | |
| Interest expense | (77,762) | (19,971) | (57,791) | 289.4 % |
| Loss on exchange and change in fair value of derivatives, net | (120,484) | 73,571 | (194,055) | (263.8)% |
| Other income (expense), net | 455 | 65 | 390 | 600.0 % |
| Total other income (expense) | (197,791) | 53,665 | (251,456) | 468.6 % |
| Net loss | $(3,708,149) | $(2,838,597) | $(869,552) | (30.6)% |

Revenues

We derive revenue from three sources: revenue from an advertiser for the use of our network of social media publishers to fulfill advertiser sponsor requests for a blog post, tweet, click, purchase, or action ("Sponsored Revenue"), revenue from the posting of targeted display advertising ("Media Revenue") and revenue derived from various service fees charged to advertisers for management, maintenance and enhancement of their accounts, and to publishers for maintenance and enhancement of their accounts ("Service Fee Revenue").

Revenues for the nine months ended September 30, 2012 increased by $1,086,867, or 38.5%, compared to the same period in 2011. The increase was attributable to a $1,060,000 increase in our Sponsored Revenue, a $212,000 increase from our new revenue stream, Media Revenue, offset by a $185,000 decrease in Service Fee Revenue. In the nine months ended September 30, 2012, Sponsored Revenue was 86%, Media Revenue was 5% and Service Fee Revenue was 9% of total revenue compared to Sponsored Revenue of 81% and Service Fee Revenue of 19% in the nine months ended September 30, 2011. The increase in Sponsored Revenue was primarily attributable to increased sales growth in our premier social media platforms, Social Spark and SponsoredTweets. This growth was brought about by a focus on localized client development through the increase in number of our executive sales team in Orlando, New York City, Chicago, Seattle and Dallas. This resulted in an increase in the number of customers starting campaigns and an increase in the average revenue per customer. The increase in Media Revenue was due to the implementation of IZEAMedia, our display advertising solution, for our platforms. IZEAMedia is a new feature that allows our publishers to place targeted display advertising in three of our platforms, SocialSpark, PayPerPost and Staree, for which we share revenue with the publisher. Service fees declined during the period because a majority of the fees were initially assessed to our customers in the second and third quarters of 2011 when new service fee policies were implemented.

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While we expect that revenue from our legacy platforms, PayPerPost and InPostLinks, will continue to decline in amount and as a percentage of our total revenue, we expect to increase our total revenue by over 15% in 2012 by increasing average revenue per customer, adding features to our existing platforms and introducing new platforms to take advantage of social media activities. We believe that locating outside sales executives in close proximity to our customers will help drive a closer relationship with our customers resulting in increased repeat spending and an increase in average revenue per customer. We continuously review our existing platforms and our industry in order to add new features and additional revenue streams. Two current examples are the new revenue stream from IZEAMedia and the introduction of our new platform, www.staree.com. Our Staree platform allows us to further our efforts in social media sponsorships with a site that allows the sharing of sponsored photos and videos.

Cost of Sales and Gross Profit

Our cost of sales comprise primarily of amounts paid to our social media publishers for fulfilling an advertiser's sponsor request for a blog post, tweet, click, purchase or action.

Cost of sales for the nine months ended September 30, 2012 increased by $287,327, or 22.0%, compared to the same period in 2011. Cost of sales increased as a direct result of the increase in our Sponsored Revenue and the direct publisher costs to generate such revenue. Publisher costs typically range from 50% to 80% of the advertising campaign depending on the type of publisher used in the campaign. Celebrity publishers typically used in our SponsoredTweets marketplace cost more than our average publisher cost of 50% in other marketplaces.

Gross profit for the nine months ended September 30, 2012 increased by $799,540, or 52.8%, compared to the same period in 2011. However, our gross margin improved by five percentage points from 54% for the nine months ended September 30, 2011 to 59% for the same period in 2012. The gross margin increase was primarily attributable to campaign management fee received from advertisers that require less direct publisher costs to generate such revenue.

Operating Expenses

Operating expenses consist of general and administrative, and sales and marketing expenses. Total operating expenses for the nine months ended September 30, 2012 increased by $1,417,636, or 32.2%, compared to the same period in 2011. The increase was primarily attributable to increased payroll expenses, professional fees, costs of being a public company and increases in sales and marketing expenses, primarily promotional marketing expenses, offset by a decrease in investor relations fees.

General and administrative expenses consist primarily of payroll, general operating costs, public company costs, facilities costs, insurance, depreciation, professional fees, and investor relations fees. General and administrative expenses for the nine months ended September 30, 2012 increased by $989,360 or 25.9%, compared to the same period in 2011. The increase was primarily attributable to a $55,000 increase in rent expense with the addition of three new office space locations in mid-2011, a $779,000 increase in payroll, personnel and related benefit expenses due to salary increases and additional employees, a $111,000 increase in travel related to additional personnel in multiple locations, a $437,000 increase in professional fees and reporting costs as a result of being a public company, an increase in stock-based compensation of $103,000 and a $33,000 increase in amortization and depreciation expenses from higher acquisition costs and new equipment purchases, primarily offset by a decrease of $555,000 in costs for investor relations due to the non-recurrence of a large investor relations campaign that was initiated in the second half of 2011 after our reverse merger.

Sales and marketing expenses consist primarily of compensation for sales and marketing and related support resources, sales commissions and trade show expenses. Sales and marketing expenses for the nine months ended September 30, 2012 increased by $428,276 or 72.7%, compared to the same period in 2011. The increase was primarily attributable to the promotional expenses to launch our new products and services, Staree in particular. During May and July 2012, we entered into seven agreements to issue a total of 135,521 shares of restricted common stock for celebrity endorsements of our products and services (primarily to related to the launch of our new Staree platform). In the majority of the agreements, the restricted stock vested 25% immediately upon the signing of the agreements and then vests 6.25% per month over the following twelve months. In addition to the shares, we paid cash payments of $100,000. We recorded a total of $306,312 in marketing expense for the value of the restricted awards vested and the cash payments earned during the nine months ended September 30, 2012. Future compensation related to nonvested restricted awards expected to vest and unearned cash compensation of $64,619 is estimated to be recognized over the remaining individual contract terms of up to nine months.

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Other Income (Expense)

Other income (expense) consists primarily of interest expense and the change in the fair value of derivatives.

Interest expense during the nine months ended September 30, 2012 increased by $57,791 compared to the same period in 2011 primarily due to the issuance of a senior secured promissory note in the principal amount of $550,000 in February 2012 and a $75,000 promissory note in May 2012. The carrying value and the direct finance costs on the notes are subject to amortization, through charges to interest expense, over the term to maturity using the effective interest method.

We entered into financing transactions during the nine months ended September 30, 2012 and 2011 that gave rise to derivative liabilities. These financial instruments are carried as derivative liabilities, at fair value, in our financial statements. Changes in the fair value of derivative financial instruments are required to be recorded in other income (expense) in the period of change. We recorded income resulting from the change in the fair value of certain warrants during the nine months ended September 30, 2012 and 2011 in the amount of $738,628 and $73,571, respectively. We recognized a $802,123 loss on exchange when we redeemed certain warrants to purchase an aggregate of 135,782 shares of common stock for the same number of shares without the Company receiving any further cash consideration during the nine months ended September 30, 2012. Additionally, we recorded $56,989 in expense resulting from the change in the fair value of our compound embedded derivatives in our promissory notes during the nine months ended September 30, 2012. The net effect of these changes in fair values and loss on exchange of warrants resulted in a total expense of $120,484 and income of $73,571 during the nine months ended September 30, 2012 and 2011, respectively. We have no control over the amount of change in the fair value of our derivative instruments as this is a factor based on fluctuating interest rates and stock prices and other market conditions outside of our control.

Net Loss

Net loss for the three months ended September 30, 2012 was $3,708,149 which increased from the net loss of $2,838,597 for the same period in 2011. As discussed above, although gross profit increased over the prior year due to increased revenue, these improvements were exceeded by the large increase in operating expenses attributable to increased headcount, professional fees, public company and other sales and marketing expenses.

Liquidity and Capital Resources

Our cash position was $1,304,012 as of September 30, 2012 as compared to $225,277 as of December 31, 2011, an increase of $1,078,735 as a result of recent financing transactions. We have incurred significant net losses and negative cash flow from operations since our inception. We incurred net losses of $3,708,149 and $3,978,592 for the nine months ended September 30, 2012 and for the year ended December 31, 2011, respectively, and had an accumulated deficit of $21,838,933 as of September 30, 2012. The opinion of our independent registered public accounting firm on our audited financial statements as of and for the year ended December 31, 2011 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions.

Cash used for operating activities was $2,485,430 during the nine months ended September 30, 2012 and was primarily a result of our net loss during the period of $3,708,149. Cash provided by financing activities was $3,569,524 during the nine months ended September 30, 2012 and was primarily a result of net proceeds of $543,700 received from the issuance of a promissory notes and $3,045,899 received from the sale of our common stock as further discussed below. Financing activities were reduced by principal payments of $21,174 on our capital leases.

To date, we have financed our operations through internally generated revenue from operations, the sale of our equity and the issuance of notes and loans from shareholders.

On February 3, 2012, we issued a senior secured promissory note in the principal amount of $550,000 with an original issuance discount of $50,000, plus $3,500 in lender fees to two of our existing shareholders. In connection with the note, we incurred expenses of $21,800 for legal and other fees. Accordingly, net cash proceeds from the note amounted to $474,700. Unless earlier converted, exchanged or prepaid, the note matures on February 2, 2013. The note may be prepaid by us at any time. The obligations under the note are first priority senior secured obligations (subject to an equipment lease) and are secured by substantially all of our assets and assets of our subsidiary. The face value of the note may be exchanged at the option of the holders into the applicable dollar amount of equity securities issued by us in a subsequent financing. The holders may convert the outstanding principal amount of the note at a conversion price of 90% of the closing price of our common stock on the

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trading day prior to the date that the note becomes convertible, subject to further adjustment in the case of stock splits, reclassifications, reorganizations, certain issuances at less than the conversion price and the like. We are further subject to certain liquidated damages if we fail to timely effectuate a conversion under the terms of the note. Until such time that the note is no longer outstanding, without the consent of the holders, we are prohibited from incurring certain debt, selling any account receivable or declaring any dividend. On October 25, November 2 and November 12, 2012, the noteholders converted $80,000, $182,700 and $40,000 of note value into 293,363, 580,000 and 123,457 shares of common stock at a conversion rate of $0.2727, $0.315 and $0.324 per share, respectively. The remaining balance on this note as of November 12, 2012 is $247,300.

During the nine months ended September 30, 2012, we issued 551 shares of common stock upon receipt of cash proceeds of $1,099 for the exercise of stock options at an average exercise price of $2.00 per share.

On May 8 and 15, 2012, we sold a total of 274,224 shares of our common stock at a purchase price of $5.00 per share, receiving gross proceeds of $1,371,120, in a private placement to accredited investors, pursuant to the terms of a Common Stock Purchase Agreement. We incurred expenses of $149,262 in regards to the private placement and thus received $1,221,858 in net proceeds. Pursuant to the terms of a Registration Rights Agreement, we timely filed a registration statement with the SEC for purposes of registering the resale of the shares of common stock sold in the private placement on June 6, 2012. This registration statement was declared effective by the SEC on September 5, 2012.

In May and June 2012, in accordance with the terms of the May 2011 Offering financing documents, investors converted 225 shares of the Series A convertible preferred stock into 170,455 shares of common stock. As of September 30, 2012, only 5 shares of the Series A convertible preferred stock remained outstanding.

From May through August 2012, pursuant to separate private transactions with twenty five warrant holders, we redeemed warrants to purchase an aggregate of 135,782 shares of common stock for the same number of shares without the Company receiving any further cash consideration. These transactions were effected in order to reduce the substantial overhang represented by the warrants issued in the May 2011 reverse merger and private placement.

In May 2012 and July 2012, we entered into seven agreements for celebrity endorsements of our products and services whereby we paid cash of $100,000 and issued a total of 135,521 shares of restricted common stock. In the majority of the agreements, the restricted stock vested 25% immediately upon the signing of the agreements and then vests 6.25% per month over the following twelve months during the term of the agreements.

On May 4, 2012, we issued a 30-day promissory note to two of our existing shareholders in the principal amount of $75,000 incurring $6,000 in expenses for legal fees which resulted in net proceeds of $69,000.

On July 2, 2012, we issued 71,221 shares of common stock to our former legal counsel in order to pay for general legal services totaling $356,103.

On August 1, 2012, Edward H. (Ted) Murphy, our President and Chief Executive Officer, purchased 8,000 shares of our common stock directly from us in a private transaction approved by disinterested members of our board of directors. Mr. Murphy paid a total purchase price of $19,200 or $2.40 per common share, the market price on August 1, 2012.

On August 6, 2012, Ryan S. Schram, our Chief Operating Officer, purchased 8,000 shares of our common stock directly from us in a private transaction approved by our board of directors. Mr. Schram paid a total purchase price of $19,200 or $2.40 per common share, the market price on August 6, 2012.

On August 6, 2012, Brian W. Brady, a private investor who became a director of our company on August 7, 2012, made a private investment of $100,000 for the purchase of 41,667 shares of our common stock at $2.40 per share. In accordance with the terms of the stock subscription agreement, if the our public offering was priced and sold below $2.40 per share within 120 days following the closing of his investment, we would issue additional shares to him, effectively adjusting the purchase price per share to 10% below the public offering price, with a floor of $0.50 per share. Mr. Brady also received 35,000 shares of our restricted common stock and received a $10,000 cash finance fee upon the closing the public offering. On September 11, 2012, we issued an additional 69,445 shares of common stock to Mr. Brady, so that he received a total of 111,112 shares at an effective price of $0.90 per share

On September 11, 2012, we closed on a public offering of 2,200,000 shares of our common stock at an offering price of $1.00 per share, receiving gross proceeds of $2,200,000. In connection with the September 2012 offering, we incurred expenses of $504,359 for underwriter fees, legal and other expenses. Accordingly, net cash proceeds from the September 2012 offering amounted to $1,695,641. Additionally, we issued warrants to the underwriter to purchase 110,000 shares of common stock, which had a fair value of $49,170. The warrants are fully exercisable after August 23, 2013 at an exercise price of $1.25 per share and expire on August 23, 2017.

We used the proceeds from the above stock issuances for general working capital purposes. We anticipate that we will be issuing shares for a portion or all of the amount due on our notes payable within the next three months and we are in discussions with several parties to establish a line of credit or other financing options in order to meet the needs of our operations and future growth plans. Other financing transactions may include the issuance of equity or convertible debt securities, obtaining credit facilities, or other financing alternatives. However, the volatility and sharp decline in the trading price of our common stock could make it more difficult to obtain financing through the issuance of equity or convertible debt securities. Furthermore, if we issue additional equity or convertible debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock.

There can be no assurance that we will be successful in any future financing or that the terms of any such financing transactions will not result in the issuance, or potential issuance, of a significant amount of equity securities that will cause substantial dilution to our stockholders. The inability to obtain additional capital may restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we may have to curtail our marketing and development plans and possibly cease operations.

## Off Balance Sheet Arrangements

We do not engage in any activities involving variable interest entities or off-balance sheet arrangements.

## Critical Accounting Policies and Use of Estimates

The preparation of the accompanying financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in the accompanying financial statements and the accompanying notes. The preparation of these financial statements requires managements to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. When making these estimates and assumptions, we consider our historical experience, our knowledge of economic and market factors and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of the financial statements.

Accounts receivable are customer obligations due under normal trade terms. Uncollectability of accounts receivable is not significant since most customers are bound by contract and are required to fund us for all the costs of an “opportunity”, defined as an order created by an advertiser for a publisher to write about the advertiser’s product. If a portion of the account balance is deemed uncollectible, we will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. Management determines the collectability of accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. We have a reserve for doubtful accounts of $10,000 at September 30, 2012 and December 31, 2011. We believe that this estimate is reasonable, but there can be no assurance that our estimate will not change as a result of a change in economic conditions or business conditions within our industry, our individual customers or our Company. Any adjustments to this account are reflected in the statements of operations as a general and administrative expense.

We derive our revenue from three sources: revenue from an advertiser for the use of the our network of social media publishers to fulfill advertiser sponsor requests for a blog post, tweet, click, purchase, or action ("Sponsored Revenue"), revenue from the posting of targeted display advertising ("Media Revenue") and revenue derived from various service fees charged to advertisers and publishers ("Service Fee Revenue"). Service fees to advertisers include fees charged for management of advertising campaigns through our platforms and inactivity fees for dormant accounts. Service fees to publishers include upgrade account fees for obtaining greater visibility to advertisers in advertiser searches in our platforms, early cash out fees and inactivity fees for dormant accounts. Media Revenue is generated when our publishers place targeted display advertising in blogs. Sponsored revenue is recognized and considered earned after an advertiser's opportunity is posted on our websites and their request was completed and content listed, as applicable, by our publishers for a requisite period of time. The requisite period ranges from 3 days for an action or tweet to 30 days for a blog. Customers may prepay for services by placing a deposit in their account with us.  In these cases, the deposits are recorded as unearned revenue until earned as described above. Service

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fees are recognized upon completion of the management of an advertiser's campaign or immediately when the maintenance or enhancement service is performed for an advertiser or publisher. All of our revenue is generated through the rendering of services and is recognized under the general guidelines of SAB Topic 13 A.1 which states that revenue will be recognized when it is realized or realizable and earned. We consider our revenue as generally realized or realizable and earned once i) persuasive evidence of an arrangement exists, ii) services have been rendered, iii) our price to the advertiser or customer is fixed (required to be paid at a set amount that is not subject to refund or adjustment) and determinable, and iv) collectability is reasonably assured. We record revenue on the gross amount earned since we generally are the primary obligor in the arrangement, establish the pricing and determine the service specifications.

Stock based compensation is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee’s requisite service period. We estimate the fair value of each stock option as of the date of grant using the Black-Scholes pricing model. Options vest ratably over four years with one-fourth of options vesting one year from the date of grant and the remaining options vesting monthly, in equal increments over the remaining three-year period and generally have ten-year contract lives. We estimate the fair value of our common stock using recent independent valuations or the value paid in the most recent equity or financing transactions. We estimate the volatility of our common stock at the date of grant based on the volatility of comparable peer companies which are publicly traded. We determine the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. We use 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. We have never paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We estimate 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. Changes also impact the amount of unamortized compensation expense to be recognized in future periods.

The following table shows the number of options granted under our 2007 Equity Incentive Plan and the assumptions used to determine the fair value of those options during the quarter ended March 31, 2011 and from April 1, 2011 through May 12, 2011, the date the 2007 Plan was canceled:

2007 Equity Incentive Plan Options Granted

| Period Ended | Total Options Granted | Weighted Average Fair Value of Series A Common Stock | Weighted Average Expected Term | Weighted Average Volatility | Weighted Average Risk Free Interest Rate | Weighted Average Fair Value of Options Granted |
|---|---|---|---|---|---|---|
| March 31, 2011 | 3,748,620 | $0.03 | 5 years | 54.96% | 2.37% | $0.01 |
| May 12, 2011 | 40,000 | $0.33 | 5 years | 55.08% | 1.89% | $0.16 |

The following table shows the number of options granted under our May and August 2011 Equity Incentive Plans and the assumptions used to determine the fair value of those options during the quarterly periods in 2011 and 2012 through September 30, 2012:

2011 Equity Incentive Plan Options Granted

| Period Ended | Total Options Granted | Weighted Average Fair Value of Common Stock | Weighted Average Expected Term | Weighted Average Volatility | Weighted Average Risk Free Interest Rate | Weighted Average Fair Value of Options Granted |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| June 30, 2011 | 101,078 | $13.20 | 5 years | 55.08% | 1.88% | $1.70 |
| September 30, 2011 | 18,325 | $24.36 | 5 years | 54.89% | 1.64% | $4.48 |
| December 31, 2011 | 304 | $47.64 | 5 years | 54.95% | 1.05% | $2.21 |
| March 31, 2012 | 2,751 | $12.50 | 5 years | 54.85% | 0.82% | $3.36 |
| June 30, 2012 | 347,667 | $5.18 | 5 years | 54.93% | 0.76% | $2.26 |
| September 30, 2012 | 26,625 | $2.20 | 5 years | 54.46% | 0.65% | $1.03 |

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There were 393,494 options outstanding as of September 30, 2012 with a weighted average exercise price of $5.93 per share. There is no aggregate intrinsic value on the exercisable, outstanding options as of September 30, 2012 since the weighted average exercise price exceeded the market price of $0.88 of our common stock on such date.

We account for derivative instruments in accordance with ASC 815, Derivatives and Hedging , which requires additional disclosures about the our 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. We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt and 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.

We record a beneficial conversion feature (“BCF”) related to the issuance of convertible debt and equity instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation are recognized a) for convertible debt as interest expense over the term of the debt, using the effective interest method or b) for preferred stock as dividends at the time the stock first becomes convertible.

### Recent Accounting Pronouncements

There are several new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective. Management does not believe any of these accounting pronouncements will be applicable and therefore will not have a material impact on our financial position or operating results.

## ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISK

Not required.

## ITEM 4 – CONTROLS AND PROCEDURES

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosures.

In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Furthermore, controls and procedures could be circumvented by the individual acts of some persons, by collusion or two or more people or by management override of the control. Misstatements due to error or fraud may occur and not be detected on a timely basis.

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as

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defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2012. Based on the results of that evaluation, our management concluded that our disclosure controls and procedures were effective as of September 30, 2012.

Changes in Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the Company’s transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements and that receipts and expenditures of the Company’s assets are made in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company’s financial statements would be prevented or detected.

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II - OTHER INFORMATION

### ITEM 1 – LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of 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 our business.

On October 17, 2012, Blue Calypso, Inc. filed a complaint against our Company in the U.S. District Court for the Eastern District of Texas accusing our Company of infringing a patent related to peer-to-peer advertising between mobile communication devices seeking unspecified damages. At this stage, we do not have an estimate of the likelihood or the amount of any potential exposure to it. We believe that there is no merit to this suit, and intend to vigorously defend ourselves.

We are currently not aware of any other legal proceedings or claims that we believe would or could have, individually or in the aggregate, a material adverse effect on us.

### ITEM 1A – RISK FACTORS

In addition to the information set forth under Item 1A of Part I to our Annual Report on Form 10-K for the year ended December 31, 2011, information at the beginning of Management's Discussion and Analysis entitled "Special Note Regarding Forward-Looking Information" and updates noted below, investors should consider that there are numerous and varied risks, known and unknown, that may prevent us from achieving our goals.  If any of these risks actually occur, our business, financial condition or results of operation may be materially adversely affected.  In such case, the trading price of our common stock could decline and investors could lose all or part of their investment.

Risks Related to our Business

We have a history of losses, expect future losses and cannot assure you that we will achieve profitability or obtain the financing necessary for future growth.

We have incurred significant net losses and negative cash flow from operations since our inception. We incurred net losses of $3,708,149 and $3,978,592 for the nine months ended September 30, 2012 and for the year ended December 31, 2011, respectively, and had an accumulated deficit of $21,838,933 as of September 30, 2012. Although our revenue has increased since inception, we have not achieved profitability and cannot be certain that we will be able to sustain these growth rates or realize sufficient revenue to achieve profitability. Our ability to continue as a going concern is dependent upon raising capital from financing transactions, issuing additional shares of our common stock in order to repay our current notes payable, increasing revenue and keeping operating expenses at less than 50% of our revenue levels in order to achieve positive cash flows, none of which can be assured. If we achieve profitability, we may not be able to sustain it. Financing transactions may include the issuance of equity or convertible debt securities, obtaining credit facilities, or other financing alternatives. The volatility and sharp decline in the trading price of our common stock over the past year could make it more difficult to obtain financing through the issuance of equity or convertible debt securities.

There can be no assurance that we will be successful in any future financing or that the terms of any such financing transactions will not result in the issuance, or potential issuance, of a significant amount of equity securities that will cause substantial dilution to our stockholders. The inability to obtain additional capital may restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we may have to curtail our marketing and development plans and possibly cease operations.

Our independent registered public accounting firm's report contains an explanatory paragraph that expresses substantial doubt about our ability to continue as a going concern.

As of September 30, 2012, our total stockholders' deficit was $855,898 and we had a working capital deficit of $1,015,943. Primarily as a result of our losses and limited cash balances, our independent registered public accounting firm included in their report for the year ended December 31, 2011 an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. If we are not able to raise sufficient capital to generate positive cash flows that will sustain us for more than one year, our independent registered public accounting firm may be required to continue to include this

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explanatory paragraph expressing substantial doubt about our ability to continue as a going concern in their future reports. Such language in our independent registered public accounting firm's report could make it more difficult to obtain future financing.

Risks Relating to our Common Stock

Our promissory notes have a future determined conversion price which may result in substantial dilution to the ownership interests of our existing stockholders.

On February 3, 2012, we and our subsidiary, IZEA Innovations, Inc., jointly issued a senior secured promissory note in the principal amount of $550,000 to two of our existing shareholders. According to the terms of the note, if the note is not fully paid by maturity and the note's maturity is automatically extended until February 2, 2013, the noteholders may convert the outstanding principal amount of the note at a conversion price equal to 90% of the closing price of our common stock on the trading day prior to the date that the note becomes convertible. On May 4, 2012, we and our subsidiary, IZEA Innovations, Inc., jointly issued a 30-day promissory note to the same shareholders in the principal amount of $75,000. In June 2012, the note was extended until December 4, 2012 and the parties agreed that the noteholders could convert the note at any time on or before the maturity date into shares of common stock at a conversion price equal to the lower of (i) $5.00 per share or (ii) 90% of the then market price based on a volume weighted average price per share of our common stock as quoted on Bloomberg for the ten trading days prior to the conversion date. The note bears interest at a rate of 8% per annum with a default rate of 18% per annum. The $75,000 note will automatically convert into shares of our common stock if we complete a public offering of our securities for gross proceeds of not less than $10,000,000. No payment of accrued interest on the note is required to be made to the noteholders upon such conversion.

On October 25, November 2 and November 12, 2012, the noteholders on the $550,000 note converted $80,000, $182,700 and $40,000 of note value into 293,363, 580,000 and 123,457 shares of common stock at a conversion rate of $0.2727, $0.315 and $0.324 per share, respectively. The remaining balance on this note as of November 12, 2012 is $247,300.

The notes have a conversion price based upon the future trading price of our common stock without any “floor” conversion price, which makes the ultimate maximum number of shares to be issued upon conversion indeterminable at this time. The conversion of the note will result in a significant increase in the number of our outstanding shares and substantially dilute the ownership interests of existing stockholders. We have 5,114,280 shares of common stock outstanding as of November 12, 2012. A conversion of our $75,000 promissory note would result in the issuance of 231,481 shares of common stock and a conversion of the remaining $247,300 senior secured promissory note would result in an additional issuance of 763,272 shares of common stock. These share amounts were estimated using a conversion price of $0.324 per share (90% of the closing price of $0.36 on November 12, 2012), but the conversion price could be lower resulting in even higher share amounts.

Exercise of stock options, warrants and other convertible securities will dilute your percentage of ownership and could cause our stock price to fall.

As of November 12, 2012, we have outstanding stock options and warrants to purchase 521,928 shares of common stock, preferred stock convertible into 3,788 shares of common stock and convertible promissory notes with remaining principal amounts totaling $322,300 convertible into 994,753 shares of common stock (assuming a conversion price of $0.324 per share, as noted above) that could result in our issuing a significant number of additional shares of common stock. Additionally, we have available shares to issue stock options to purchase up to 256,491 shares of common stock under our May 2011 Equity Incentive Plan and up to 50,000 shares of common stock under our August 2011 Equity Incentive Plan. In the future, we may grant additional stock options, warrants and convertible securities. The exercise, conversion or exchange of stock options, warrants or convertible securities will dilute the percentage ownership of our other stockholders. Sales of a substantial number of shares of our common stock could cause the price of our common stock to fall and could impair our ability to raise capital by selling additional securities.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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From May through August 2012, pursuant to separate private transactions with twenty five warrant holders, we redeemed warrants to purchase an aggregate of 135,782 shares of common stock for the same number of shares without the Company receiving any further cash consideration. These transactions were effected in order to reduce the substantial overhang represented by the warrants issued in the May 2011 reverse merger and private placement.

On August 1, 2012, Edward H. (Ted) Murphy, our President and Chief Executive Officer, purchased 8,000 shares of our common stock directly from us in a private transaction approved by disinterested members of our board of directors. Mr. Murphy paid a total purchase price of $19,200 or $2.40 per common share, the market price on August 1, 2012.

On August 6, 2012, Ryan S. Schram, our Chief Operating Officer, purchased 8,000 shares of our common stock directly from us in a private transaction approved by our board of directors. Mr. Schram paid a total purchase price of $19,200 or $2.40 per common share.

On August 6, 2012, Brian W. Brady, a private investor who became a director of our company on August 7, 2012, made a private investment of $100,000 for the purchase of 41,667 shares of our common stock at $2.40 per share. In accordance with the terms of a stock subscription agreement, in August and September 2012, we issued an additional 35,000 and 69,445 shares of restricted common stock to Mr. Brady.

We used the proceeds from the above stock issuances for general working capital purposes. Each of these issuances were exempt from registration by virtue of Section 4(2) of the Securities Act of 1933.

## ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

NONE

## ITEM 4 – MINE SAFETY DISCLOSURES

N/A

## ITEM 5 – OTHER INFORMATION

NONE

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ITEM 6 – EXHIBITS

| | | |
|---|---|---|
| 3.1 | | Articles of Incorporation (Incorporated by reference to the Company’s registration statement on Form S-1 filed with the Securities and Exchange Commission on July 2, 2010) |
| 3.2 | | Certificate of Amendment to the Articles of Incorporation (Incorporated by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2011) |
| 3.3 | | Bylaws (Incorporated by reference to the Company’s registration statement on Form S-1 filed with the Securities and Exchange Commission on July 2, 2010) |
| 3.4 | | Certificate of Designation (Incorporated by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on May 27, 2011) |
| 3.5 | | Amendment to Certificate of Designation (Incorporated by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on May 27, 2011) |
| 3.6 | | Certificate of Change of IZEA, Inc., filed with the Nevada Secretary of State on July 30, 2012 (Incorporated by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on August 1, 2012). |
| 31.1 | | Section 302 Certification of Principal Executive Officer |
| 31.2 | | Section 302 Certification of Principal Financial Officer |
| 32.1 | * | Section 906 Certification of Principal Executive Officer |
| 32.2 | * | Section 906 Certification of Principal Financial Officer |
| 101 | ** | The following materials from IZEA, Inc.'s Quarterly Report on Form 10-Q for the six months ended September 30, 2012 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations, (iii) the Unaudited Consolidated Statement of Stockholders' Deficit, (iv) the Unaudited Consolidated Statements of Cash Flow, and (iv) Notes to the Unaudited Consolidated Financial Statements tagged as blocks of text. |

* In accordance with Item 601of Regulation S-K, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IZEA, Inc.
a Nevada corporation

| | |
|---|---|
| November 14, 2012 | By: /s/ Edward Murphy<br>Edward Murphy<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| November 14, 2012 | By: /s/ Donna Mackenzie<br>Donna Mackenzie<br>Chief Financial Officer and Secretary<br>(Principal Financial and Accounting Officer) |