

COMMERCETEL CORP  
Form 10-K  
April 16, 2012

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission file number 000-53851

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

Nevada  
(State or Other Jurisdiction of Incorporation or  
Organization)

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

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

(866) 622-4261  
(Telephone Number)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting and non-voting stock held by non-affiliates is computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common stock equity, as of June 30, 2011, representing the last business day of the registrant's most recently completed second fiscal quarter: \$40,868,278. For purposes of this computation, all directors and executive officers of the registrant are considered to be affiliates of the registrant. This assumption is not to be deemed an admission by the persons that they are affiliates of the registrant.

As of March 23, 2012, the registrant had 22,754,308 shares of common stock issued and outstanding.

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COMMERCETEL CORPORATION  
ANNUAL REPORT ON FORM 10-K  
FISCAL YEAR ENDED DECEMBER 31, 2011  
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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Form 10-K, contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. The forward-looking statements are contained principally in Item 1—“Business,” Item 1.A—“Risk Factors” and Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations” but appear throughout the Form 10-K. Examples of forward-looking statements include, but are not limited to our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “opportunity,” “plan,” “potential,” “predicts,” “seek,” “should,” “will,” or “would,” and similar variations or negatives of these words. These forward-looking statements are based on the expectations, estimates, projections, beliefs and assumptions of our management based on information currently available to management, all of which are subject to change. Such forward-looking statements are subject to risks, uncertainties and other factors that are difficult to predict and could cause our actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed under Item 1.A. “Risk Factors” in this Form 10-K. Furthermore, such forward-looking statements speak only as of the date of this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements to reflect events or circumstances after the date of such statements for any reason, except as otherwise required by law.

Part I

Item 1. Business

General Information

CommerceTel Corporation (the “Company” or “we”) is a provider of technology that enables major brands and enterprises to engage consumers via their mobile phone. Interactive electronic communications with consumers is a complex process involving communication networks and software. We remove this complexity through our suite of services and technologies thereby enabling brands, marketers, and content owners to communicate with their customers and consumers in general. From Presidential elections to major broadcast events, we are pioneers in the deployment of the mobile channel as the ultimate direct connection to the consumer.

Mobile phone users represent a large and captive audience. While televisions, radios, and even PCs are often shared by multiple consumers, mobile phones are personal devices representing a unique and individual address to the end user. We believe that the future of digital media will be driven by mobile phones where a direct, personal conversation can be had with the world’s largest audience. The future of mobile includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life. Over five million consumers have been engaged via their mobile device thanks to our technology.

We believe that our mobile marketing and advertising campaign platform is among the most advanced in the industry as it allows real time interactive communications with consumers. We generate revenue from licensing our software to clients in our software as a service (SaaS) model, per-message and per minute transactional fees, and customized professional services.

Our “C4” Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution enabling our clients to develop, execute, and manage a variety of engagements to a consumer’s mobile phone. Short Messaging

Service (SMS), Multi-Media Messaging (MMS), and Interactive Voice Response (IVR) interactions can all be facilitated via a set of Graphical User Interfaces (GUIs). Reporting and analytics capabilities are also available to our users through the C4 solution.

Mobile devices are emerging as the principal interactive channel for brands to reach consumers since it is the only media platform that has access to the consumer virtually anytime and anywhere. Brands and advertising agencies are recognizing the unique benefits of the mobile channel and they are increasingly integrating mobile media within their overall advertising and marketing campaigns. Our objective is to become the industry leader in connecting brands and enterprises to consumers' mobile phones.

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### Company Strategy

Our objective is to build an industry-leading mobile marketing company through a combination of organic and acquired growth. The key elements to our strategy are:

Exploit the competitive advantages and operating leverage of our technology platform. The core of our business is our proprietary, enterprise-grade C4 technology platform. We believe that the C4 platform is more advanced than technologies offered by our competitors and provides us with a significant competitive advantage. The platform is also highly scalable and capable of supporting substantial growth of our business.

Expand our sales and customer support infrastructure. We have historically focused our efforts on development of our technology and solutions. Going forward, we intend to increase significantly our investments in sales and customer support.

Acquire complementary businesses and technologies. Our future growth will largely depend upon our ability to acquire and integrate complementary businesses. We have identified hundreds of companies operating in the mobile marketing industry. Most are privately owned and have relatively modest revenues and limited exit options. We believe that the combination of our award-winning technology platform and the “currency” of our publicly traded common stock will make us an attractive alternative for many of these companies. We target companies with the following characteristics: (1) an established revenue base, (2) strong pipeline and growth prospects, (3) break-even or positive cash flow, (4) opportunities for substantial expense reductions through integration into our platform, (5) strong sales teams, and (6) technology and services that further build out and differentiate our platform.

Build our intellectual property portfolio. We currently have one issued patent and recently acquired a second issued patent that we believe have significant potential application in the mobile marketing industry. We plan to continue our investment in building a strong intellectual property portfolio.

While these are the key elements of our current strategy, there can be no guarantees that our strategy will not change, or that we will succeed in achieving these goals.

### Company Background

CommerceTel Corporation, a Nevada corporation, formerly Ares Ventures Corporation, was an exploration stage company with no revenues and a limited operating history until November 2010.

### Share Exchange

On November 2, 2010, we completed the acquisition of CommerceTel, Inc., in exchange for 10,000,000 shares of our common stock (the “Share Exchange”). Please refer to Note 1 in the accompanying consolidated financial statements. Our current operations are conducted entirely by CommerceTel, Inc.

In anticipation of the transaction, effective October 5, 2010, we changed our name from Ares Ventures Corporation to CommerceTel Corporation.

### Txtstation Acquisition

On April 1, 2011, we acquired substantially all of the assets of the Txtstation interactive mobile marketing platform and services business from Adsparg Limited (“Adsparg”). The purchase price for the acquisition was 2,125,000 shares of our common stock and \$300,000 in cash. Of the cash portion, \$50,000 was paid at closing, with an additional

\$25,000 payable on the 60th day following closing. The balance is payable in \$25,000 installments at the end of each of the next nine 30-day periods thereafter. We assumed none of Adspaq's liabilities in the transaction. For a period of one year following the closing of the transaction, half of the shares of common stock issued to Adspaq will be held in escrow as security for Adspaq's obligations under the agreement.

In connection with the transaction, we also issued 300,000 shares of our common stock to the controlling stockholder of Adspaq in consideration of certain indemnification obligations and other agreements. As a result of the transaction, our headcount increased by seven full time employees and one part time employee on April 1, 2011.

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### Mobivity Acquisition

On April 1, 2011, we acquired the Mobivity interactive mobile marketing platform and services business from Mobivity, LLC and Mobile Visions, Inc.

The purchase price for the acquisition was 1,000,000 shares of our common stock, \$64,969 in cash paid at closing and a secured subordinated promissory note of CommerceTel, Inc. (our wholly owned subsidiary) in the principal amount of \$606,054. The promissory note earns interest at 6.25% per annum; is payable in six quarterly installments of \$105,526 (inclusive of interest) starting May 1, 2011; matures on August 1, 2012; is secured by the acquired assets of the Mobivity business; and is subordinated to our obligations under our outstanding 10% Senior Secured Convertible Bridge Notes Due November 3, 2011.

### BoomText Acquisition

On August 1, 2011, we acquired the assets of the BoomText interactive mobile marketing services with Digimark, LLC (“Digimark”). The purchase price for the acquisition consisted of the following components:

- (i) 519,540 shares of our common stock issued at closing;
- (ii) \$120,514 in cash paid at closing;
- (iii) a secured subordinated promissory note of CommerceTel, Inc. in the principal amount of \$175,000. This note earns interest at 6.25% per annum; is payable in full on March 31, 2012; is secured by all of the assets of CommerceTel, Inc. and is subordinated to our obligations under our outstanding 10% Senior Secured Convertible Bridge Notes due November 3, 2011;
- (iv) an unsecured subordinated promissory note in the principal amount of \$194,658 issued by CommerceTel, Inc. This note does not bear interest; is payable in installments (varying in amount) from August 2011 through October 2012; and is subordinated to our obligations under our outstanding 10% Senior Secured Convertible Bridge Notes;
- (v) an earn-out payment (payable 20 months after closing of the transaction) of a number of shares of our common stock equal to (a) 1.5, multiplied by our net revenue from acquired customers and customer prospects for the twelve-month period beginning six months after the closing date, divided by (b) the average of the volume-weighted average trading prices of our common stock for the 25 trading days immediately preceding the earn-out payment (subject to a collar of \$1.49 and \$2.01 per share).

As of December 31, 2011 the estimated dollar value of the earn-out payable is \$2,658,238, which is recorded as a non-current liability on the accompanying condensed consolidated balance sheet. The estimated number of common shares to be issued to settle the earn-out payable is 2,422,242. The purchase price also included the assumption of an office lease obligation and certain of Digimark’s accounts payable.

### Industry Background

The area of our business consists of advertising and marketing. While advertising raises awareness and fosters positive perceptions of a product, service or company through brand-building or individually-targeted campaigns, marketing activities occur once the consumer decides to interact with the brand, and are focused on convincing the consumer to take action, for example request information, opt-in to a campaign, or make a purchase.



The Mobile Marketing Association, the premier global non-profit trade association in the area of mobile marketing, has defined mobile marketing as a set of practices that enables organizations to communicate and engage with their audience in an interactive and relevant manner through any mobile device or network. Mobile marketing is commonly known as wireless marketing.

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Mobile advertising is a rapidly growing business providing brands, agencies and marketers the opportunity to connect with consumers beyond traditional and digital media directly on their mobile phones. Today's mobile phones are utilized for more than just making and receiving calls. Besides voice services, mobile users have access to data services such Short Message Service (SMS), also known as text messaging, picture messaging, content downloads and the Mobile Web. These media channels carry both content and advertising. The mobile phone is an extremely personal device as each mobile phone typically has one unique user. This makes the mobile phone a precisely targeted communication channel, where users are highly engaged with content. As a result, the mobile channel is a highly effective campaign tool and its response levels are high compared to other media. Mobile is valuable as a stand-alone medium for advertising, but it is also well suited for a vital role in fully integrated cross-media campaign plans, including TV, print, radio, outdoor, cinema, online and direct mail. We believe that the future of digital media will be driven by mobile phones where a direct, personal conversation can be had with the world's largest network. The future of mobile includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life.

Mobile advertising campaigns may use multiple channels to reach the consumer, including Mobile Web sites, mobile applications, mobile messaging and mobile video, all of which can be integrated into interactive campaigns. Each channel can link to additional mobile content or channels, as well as to complementing traditional media. Mobile advertising provides a powerful, instant and interactive response path in that consumers may send a keyword to a short code via SMS, or register on a Mobile Web site.

### Mobile Web

The Mobile Web is quickly emerging as a mainstream information, entertainment and transaction source for people on the move and away from a PC. Browsing the Mobile Web is similar to traditional PC-based Web browsing and provides users with access to news, sports, weather, entertainment and shopping sites. However, there are some significant differences between PC based access and phone-based access:

The mobile phone is a targeted device with typically only one user. This enables the delivery of relevant communications causing users to become engaged immediately with campaigns and content resulting in increased campaign effectiveness.

Mobile phones do not permit detailed search and delivery. Rather, mobile users will usually seek quick access to succinct information and services. Space on mobile phone screens is at a premium, and users have limited input mechanisms, so Mobile Web sites need to be easy to navigate using just the mobile phone keypad.

Mobile phones have a broad range of different form factors, screen sizes and resolutions, all of which presents a challenge for the display and optimal viewing of content and advertising.

### Mobile Messaging

Mobile messaging technology enables users to communicate in a so-called asynchronous manner, where messages are stored in the network and delivered to the recipient as soon as the recipient's mobile phone can receive it. Once delivered, the message is stored on the users' mobile phone. SMS (Short Messaging Service) allows a mobile user to send and receive a text message of up to 160 characters and across virtually any operator network. This service is also referred to as "text messaging" or "texting". All recent mobile phone models support SMS. As a result, the large installed base of SMS phones creates a large addressable market for SMS-based mobile marketing campaigns. MMS (Multimedia Messaging Service) is the rich media equivalent to SMS text messages. An MMS message can include graphics, photos, audio and video, in addition to text. MMS is not yet universally supported by all networks; however this market segment is growing. SMS and MMS services are together referred to as "mobile messaging" or "messaging".

The stickiness of Mobile Messaging, the enormous reach of SMS and the rich media capabilities of MMS make this channel a highly rewarding advertising opportunity.

Mobile messaging represents an opportunity for advertising placement. Media publishers are using messaging to distribute mobile content. Businesses are providing consumer services through mobile messaging. These messages provide inventory into which advertisements can be inserted. In addition, it is now possible to purchase advertising in personal – person-to-person (P2P) – SMS and MMS messages.

Mobile devices have become one of the most widely used means of communication globally. Significant technological advancements have and are continuing to provide mobile users with increased access to features previously available only on PCs, such as Internet browsing, email and social networking. As mobile devices have evolved, they have begun to enable brands and advertising agencies to interact with consumers virtually anytime and anywhere, optimizing engagement with other traditional media while lowering the cost of customer acquisition and retention.

As a result, mobile devices have emerged as an important media method for brands and advertising agencies to interact with consumers. According to ABI Research, mobile marketing and advertising spending is expected to increase from \$1.64 billion in 2007 to nearly \$29 billion in 2014.

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### The CommerceTel Solution

We remove three technical barriers to achieve the ultimate goal of engaging the consumer via their mobile devices:

**Multimodal Communication:** Cell phones are used for voice conversations, to take pictures, sending and receiving SMS text messages, and several other tasks. Marketers and enterprises need to include multiple communication modalities when interacting with the mobile consumer. Engaging only one channel to the mobile consumer, for example SMS text messaging, will only result in a partial engagement with the consumer. We solve this problem via our carrier-grade integrated infrastructure delivering access to all modes of mobile communication from SMS to MMS to IVR and beyond.

**Campaign Design and Management.** The ability to conceptualize, create, and execute mobile marketing campaigns or enterprise applications in an efficient manner is affected by software and tools available at any given time. Fragmented tool sets, costly service models, and prolonged time-to-market will impede and impair the growth of the industry. Our Web-based solution, “C4”, is a unified services creation environment that enables brands and enterprises to create, manage, and report on campaigns through a set of hosted Web tools.

**Analytics.** Fragmented analytic solutions (i.e. the lack of a uniform tool set used to analyze mobile consumers’ preferences) only provide insights into disparate modalities of the mobile channel. For example, a Mobile Web analytics solution reveals a consumer’s Internet consumption while neglecting that same consumer’s SMS and Voice related activities. Our patent pending “Personalization Engine” leverages an innovative approach to gaining deep insight into mobile consumer activities and their associated profiles.

We believe that we have a significant advantage over our main competitors for the following reasons:

**Proprietary Technology:** Our proprietary, patent pending technology enables our customers to reach across all mobile phone interfaces. We continue to develop, design and deploy enterprise-grade software that we believe is more advanced than technologies developed by our competitors.

**IVR and Voice Capabilities:** Our IVR and Voice capabilities allow marketers, content owners, and search operators the freedom of engaging mobile consumers outside of wireless carrier controlled messaging networks. In many instances our competitors have outsourced business to us to enable IVR features in their service offerings. This fundamental advantage has allowed us to quickly penetrate major brands.

**In-house Expertise:** We believe that our primary technical advantage is that we've built most of our systems in-house, relieving us from costly software licensing fees associated with IVR platforms, SMS messaging and other platforms. For example, IVR software typically ranges from \$150 to \$1,000 per port, plus annual maintenance and support fees. Our current infrastructure supports over 10,000 IVR ports without any associated IVR licensing costs. In addition, there are unavoidable provisioning times for interconnecting with VOIP (voice over internet protocol) and PSTN (public switched telephone networks) that can take a minimum of 90 days, plus another 30 days for equipment provisioning.

### Marketing and Sales

We believe that a successful marketing campaign addressed to mobile marketing and content operators, particularly large agencies and brands, is largely dependent on strong personal relationships with executives and a solutions-based sales approach. We intend to employ an executive level sales team capable of fostering direct relationships with brands while business development resources will focus on channel partnerships through IT systems integrators and marketing agencies. Due to expansion into the small and medium size enterprise (SME) market with the acquisition

of Mobivity and Boomtext, we also expect to make significant progress marketing our solutions to franchises and small individually owned businesses. We currently employ an inside sales team to exclusively market our SME product to this market segment.

Certain minimum capitalization and financial levels are usually required by large enterprises when seeking technical vendors. Therefore, we intend to employ a partnership strategy in selling to large enterprises. Partnerships will allow us to sell into larger enterprises during our early growth period by avoiding having to meet these minimum capitalization levels.

We also intend to employ a small executive level sales team and continue our market leadership position with our large brand name client base establishing credibility and entre to prospective, targeted accounts across all vertical segments. As key accounts are won, and we begin to scale, our strategy will employ a core "Client Services" team to serve existing clients and drive revenue growth from existing business, while a direct sales force will be tasked with focusing exclusively on new client relationships.

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### Our Platform

The ability to conceptualize, create, and execute mobile marketing campaigns or enterprise applications will be directly affected by software and tools available to design and deliver solutions efficiently and effectively. Fragmented tool sets, costly service models, and prolonged time-to-market will impede and impair the growth of the industry.

Our Web-based solution, "C4", is a unified services creation environment empowering brands and enterprises with the ability to create, manage, and report on campaigns through a set of hosted Web tools.

### Research and Development

We have built a strong internal software development team that has many years of experience in the mobile advertising and marketing industries. As of December 31, 2011, we had three engineers and software developers in our development centers located in San Diego, CA. Our recent research and development activities have been focused on enhancements to our platform. Current research and development initiatives continue to focus on extending our technology into payment processing, location based services, application analytics, and other technical opportunities in the evolving mobile industry.

We believe that having a dedicated, highly-trained advanced projects team enables us to effectively address the rapidly evolving mobile marketing and advertising services market.

We expect our total research and development expenditures in calendar year 2012 to be approximately \$600,000.

### Competition

Although the market for mobile marketing and advertising solutions is relatively new, it is very competitive. We compete with companies of all sizes in select geographies that offer solutions that compete with single elements of our platform, such as mobile advertising networks, mobile ad serving and ad routing providers, mobile website and content creators, providers of mobile publishing and application development, SMS aggregators or providers of mobile analytics. We compete at times with interactive and traditional advertising agencies that perform mobile marketing and advertising as part of their services to their customers. Some of these entities have significantly greater resources than we do.

As a result of industry developments, some of our competitors may in the future create an integrated platform with features similar to ours, for example, Google, Inc.'s proposed acquisition of Admob, Inc. which was announced in November 2009, Apple, Inc.'s acquisition of Quattro Wireless, Inc. in January 2010, and the entry of larger companies such as Nokia, AOL, Microsoft and Yahoo! into the mobile media markets.

We believe that the key competitive factors that our customers use in selecting solutions include the availability of:

- an integrated, scalable and relatively easy to implement platform that can expand the reach of their future campaigns;
- solutions providing high quality functionality that meet their immediate marketing and advertising needs;
- sophisticated analytics and reporting;
- competitive pricing;
- existing strategic relationships with customers globally;
- high levels of quality service and support; and
- a sophisticated and financially stable provider with a proven track record.

We believe that we compete favorably on each of these factors. Our extensive experience managing global marketing and advertising campaigns, together with experienced professional services to implement and integrate these options globally, provides us with an advantage that many of our competitors lack.

The consolidation of our competitors offering point solutions into larger organizations with increased resources is a recent trend in the industry. The effects of such acquisitions on the market are still unclear.

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### Seasonality

Our business, as is typical of companies in our industry, is highly seasonal. This is primarily due to traditional marketing and advertising spending being heaviest during the holiday season while brands, advertising agencies, mobile operators and media companies often close out annual budgets towards the end of a given year. Seasonal trends have historically contributed to, and we anticipate will continue to contribute to fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

### Intellectual Property

We regard the protection of our developed technologies and intellectual property rights as an important element of our business operations and as crucial to our success. We rely primarily on a combination of patent laws, trademark laws, copyright laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technology. We generally require our employees, consultants and advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except under specific circumstances. In the case of our employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property. The development of our technology and many of our processes are dependent upon the knowledge, experience and skills of key scientific and technical personnel.

As of December 31, 2011 we owned two patents. Additionally, we have two pending U.S. patent applications. U.S. Patent number #7,991,388 B1 was issued on August 2, 2011. This patent invents the Geo-Bio-Metric Pin, a service that authenticates a user from a feature phone or smart phone using a number of mobile attainable attributes: Geolocation, Facial Image, Accelerometer, and text messaging. The end goal of the Geo-Bio-Metric Pin service is to authenticate a user while verifying the following: 1) the user is currently using his/her phone; 2) the user is at the geolocation that their phone is at; 3) the user is not at another location and using their phone through a proxy; and 4) an impostor is not using the phone.

In March 2011, we acquired US Patent number 6788769 B1 which covers a method and system for using telephone numbers as a key to address email and online content without the use of a lookup database. Using this system, a phone number is used to access a website or an email address in exactly the same way it is used to dial a telephone.

U.S. Provisional Patent Application number 20070249369 was filed on April 25, 2007. This patent application is described as a system, method and apparatus for delivering Web content to a mobile telephone or related device by using a dialing code that is provided. In an exemplary embodiment, a user who dials a telephone number, or other dialing code, and subsequently receives content sent to the user's mobile handset. In another embodiment, content is Web content sent to the user's phone via a Wireless Application Protocol (WAP) process.

U.S. Provisional Patent Application number 12/983284 was filed on December 8, 2010. This patent application describes a content delivery method and system comprising receiving, in a first communication mode, a request for information from a mobile device; sending, in the first communication mode, one or more content selection options; receiving, in the first communication mode, a selection in response to the one or more content selection options; and facilitating, in a second communication mode, delivery of content corresponding to the selection to the mobile device.

Any future patents that may issue may not survive a legal challenge to their scope, validity or enforceability, or provide significant protection for us. The failure of our patents, or our reliance upon copyright and trade secret laws to adequately protect our technology might make it easier for our competitors to offer similar products or technologies. In addition, patents may not issue from any of our current or any future applications.



Employees

As of April 11, 2012, we had thirty nine full-time employees, two part-time employee and two contract employees. Sales, marketing, and business development functions are provided by fourteen full time employees. Engineering and research and development functions are provided by three full time employees, and one contract employee. Client Services functions are provided by thirteen full time employees and one contract employee. General administration, finance, and executive management consist of nine full time employees and two part time employees.

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### Government Regulation

Depending on the products and services that they offer, mobile data service providers may be subject to regulations and laws applicable to providers of mobile, Internet and VOIP services both domestically and internationally. In addition, the application of existing domestic and international laws and regulations relating to issues such as user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, telecommunications, mobile, television and intellectual property ownership and infringement to wireless industry providers and platforms in many instances is unclear or unsettled. Further, the application of existing laws regulating or requiring licenses for certain businesses of our advertisers can be unclear.

It is possible that a number of laws and regulations may be adopted in the countries where we operate, which may be inconsistent and which could restrict the wireless communications industry, including laws and regulations regarding network management and device interconnection, lawful interception of personal data, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of the market for electronic storage of personal information may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies that store personal information. We anticipate that regulation of our industry generally will increase and that we will be required to devote legal and other resources to address this regulation.

We are directly subject to certain regulations and laws applicable to providers of Internet and mobile services both domestically and internationally. The application of existing domestic and international laws and regulations relating to issues such as user privacy and data protection, marketing, advertising, consumer protection and mobile disclosures in many instances is unclear or unsettled.

### United States Regulatory Environment

In addition to its regulation of wireless telecommunications providers generally, the U.S. Federal Communications Commission, or FCC, has shown interest in at least three areas that impact our business: research and development with regards to innovation, competition in the wireless industry and consumer protection with an emphasis on truth-in-billing. The FCC has examined, or is currently examining, how and when consumers enroll in mobile services, what types of disclosures consumers receive, what services consumers are purchasing and how much consumers are charged. In addition, the Federal Trade Commission, or FTC, has been asked to regulate how mobile marketers can use consumers' personal information. Consumer advocates claim that many consumers do not know when their information is being collected from cell phones and how such information is retained, used and shared with other companies. Consumer groups have asked the FTC to identify practices that may compromise privacy and consumer welfare; examine opt-in procedures to ensure consumers are aware of what data is at issue and how it will be used; investigate marketing tactics that target children and create policies to halt abusive practices. The FTC has expressed interest in particular in the mobile environment and services that collect sensitive data, such as location-based information.

Deceptive Trade Practice Law in the U.S. The FTC and state attorneys general are given broad powers by legislatures to curb unfair and deceptive trade practices. These laws and regulations apply to mobile marketing campaigns and behavioral advertising. The general guideline is that all material terms and conditions of the offer must be "clearly and conspicuously" disclosed to the consumer prior to the buying decision. In practice, the definition of clear and conspicuous disclosure is often a subjective determination. The balancing of the desire to capture a potential customer's attention, while providing adequate disclosure, can be even more challenging in the mobile context due to the lack of space.

**Behavioral Advertising.** Behavioral advertising is a technique used by online publishers and advertisers to increase the effectiveness of their campaigns. Behavioral advertising uses information collected from an individual's web-browsing behavior, such as the pages they have visited or the searches they have made, to select which advertisements to display to that individual. This data can be valuable for online marketers looking to personalize advertising initiatives or to provide geo-tags through mobile devices. Currently, behavioral advertising is not formally regulated in the U.S., but many businesses adhere to industry self-governing principles, including an opt-out regime whereby information may be collected until an individual indicates that he or she no longer agrees to have this information collected. The FTC and EU member states are considering regulations in this area, which may include implementation of a more rigorous opt-in regime. An opt-in policy would prohibit businesses from collecting and using information from individuals who have not voluntarily consented. Among other things, the implementation of an opt-in regime could require substantial technical support and negatively impact the market for our mobile advertising products and services. A few states have also introduced bills in the past two years that would restrict or prohibit behavioral advertising within the state. These bills would likely have the practical effect of regulating behavioral advertising nationwide because of the difficulties behind implementing state-specific policies or identifying the location of a particular consumer.

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**Behavioral Advertising-Privacy Regulation.** Our business is affected by U.S. federal and U.S. state, as well as EU member state and foreign country, laws and regulations governing the collection, use, retention, sharing and security of data that we receive from and about our users. In recent years, regulation has focused on the collection, use, disclosure and security of information that may be used to identify or that actually identifies an individual, such as an Internet Protocol address or a name. Although the mobile and Internet advertising privacy practices are currently largely self-regulated in the U.S., the FTC has conducted numerous discussions on this subject and suggested that more rigorous privacy regulation is appropriate, possibly including regulation of non-personally identifiable information which could, with other information, be used to identify an individual. Within the EU, member state data protection authorities typically regard IP addresses as personal information, and legislation adopted recently in the EU requires consent for the placement of a cookie on a user device. In addition, EU data protection authorities are following with interest the FTC's discussions regarding behavioral advertising and may follow suit by imposing additional privacy requirements for mobile advertising practices.

**Marketing-Privacy Regulation.** In addition, there are U.S. federal and state laws and EU member state and other country laws that govern SMS and telecommunications-based marketing, generally requiring senders to transmit messages (including those sent to mobile devices) only to recipients who have specifically consented to receiving such messages. U.S. federal, EU member state and other country laws also govern e-mail marketing, generally imposing an opt-out requirement for emails sent within an existing business relationship.

**SMS and Location-Based Marketing Best Practices and Guidelines.** We are a member of the Mobile Marketing Association, or MMA, a global association of 700 agencies, advertisers, mobile device manufacturers, wireless operators and service providers and others interested in the potential of marketing via the mobile channel. The MMA has published a code of conduct and best practices guidelines for use by those involved in mobile messaging activities. The guidelines were developed by a collaboration of the major carriers and they require adherence to them as a condition of service. We voluntarily comply with the MMA code of conduct. In addition, the Cellular Telephone Industry Association, or CTIA, has developed Best Practices and Guidelines to promote and protect user privacy regarding location-based services. We also voluntarily comply with those guidelines, which generally require notice and user consent for delivery of location-based services.

**TCPA.** The United States Telephone Consumer Protection Act, or TCPA, prohibits unsolicited voice and text calls to cell phones or the use of an auto-dialing system unless the recipient has given prior consent. The statute also prohibits companies from initiating telephone solicitations to individuals on the national Do-Not-Call list, unless the individual has given prior express consent or has an established business relationship with the company, and restricts the hours when such messages may be sent. In the case of text messages, a company must obtain opt-in consent to send messages to a mobile device. Violations of the TCPA can result in statutory damages of \$500 per violation (i.e., for each individual text message). U.S. state laws impose additional regulations on voice and text calls.

**CAN-SPAM.** The U.S. Controlling the Assault of Non-Solicited Pornography and Marketing Act, or CAN SPAM, prohibits all commercial e-mail messages, as defined in the law, to mobile phones unless the device owner has given "express prior authorization." Recipients of such messages must also be allowed to opt-out of receiving future messages the same way they opted-in. Senders have ten days to honor opt-out requests. The FCC has compiled a list of domain names used by wireless service providers to which marketers may not send commercial e-mail messages. Senders have 30 days from the date the domain name is posted on the FCC site to stop sending unauthorized commercial e-mail to addresses containing the domain name. Violators are subject to fines of up to \$6.0 million and up to one year in jail for some spamming activities. Carriers, the FTC, the FCC, and State Attorneys General may bring lawsuits to enforce alleged violations of the Act.

**Communications Privacy Acts.** Foreign, U.S. federal and U.S. state laws impose consent requirements for disclosures of contents of communications or customer record information. To the extent that we knowingly receive

this information without the consent of customers, we could be subject to class action lawsuits for statutory damages or criminal penalties under these laws, which could impose significant additional costs and reputational harm. EU member state laws also require consent for our receiving this information, and if our carrier customers fail to obtain such consent we could be subjected to civil or even criminal penalties.

**Security Breach Notification Requirements.** EU member state laws require notice to the member state data protection authority of a data security breach involving personal data if the breach poses a risk to individuals. In addition, Germany recently enacted a broad requirement to notify individuals in the event of a data security breach that is likely to be followed by notification requirements to data subjects in other EU member states. In the U.S., various states have enacted data breach notification laws, which require notification of individuals and sometimes state regulatory bodies in the event of breaches involving certain defined categories of personal information. Japan and Uruguay have also recently enacted security breach notice requirements. This new trend suggests that breach notice statutes may be enacted in other jurisdictions, including by the U.S. at the federal level, as well.

**Children.** U.S. federal privacy regulations implementing the Children's Online Privacy Protection Act prohibit the knowing collection of personal information from children under the age of 13 without verifiable parental consent, and strictly regulate the transmission of requests for personal information to such children. Other countries do not recognize the ability of children to consent to the collection of personal information. In addition, it is likely that behavioral advertising regulations will impose special restrictions on use of information collected from minors for this purpose.

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Item 1A. Risk Factors

Risks Related to our Business

We may not have the liquidity to settle our bridge notes at maturity.

Our \$1,717,627 principal amount currently outstanding of bridge notes (plus interest accrued at 10% annually), matures on May 2, 2012. There is no certainty that we will have the liquidity necessary to settle the bridge notes including accrued interest at the maturity date, nor is it certain that the bridge lenders will agree to an extension of the maturity date or an accommodation favorable to us. Our obligations under the bridge notes are secured by all of our assets. In the event we cannot settle the bridge notes at the maturity date or reach an accommodation with the bridge lenders, they may declare a default and foreclose on our assets. If that were to occur, our operations would be severely jeopardized if not entirely curtailed.

We will need to raise additional capital to grow our business.

We anticipate, based on currently proposed plans and assumptions relating to our ability to market and sell our products, that our cash on hand and revenues from operations will not satisfy our operational and capital requirements for the next 6 months. Further, the operation of our business and our efforts to grow our business further both through acquisitions and organically will require significant cash outlays and commitments. The timing and amount of our cash needs may vary significantly depending on numerous factors, including but not limited to:

- market acceptance of our mobile marketing and advertising services;
- the need to adapt to changing technologies and technical requirements;
- the need to adapt to changing regulations requiring changes to our processes or platform; and
- the existence and cost of opportunities for expansion through internal growth and acquisitions.

As a result, we will need to seek additional capital, potentially through debt, or equity financings, to fund our growth. We may not be able to raise cash on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive to our shareholders, and the prices at which new investors would be willing to purchase our securities may be lower than the current price of our ordinary shares. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our ordinary shares. If new sources of financing are required but are insufficient or unavailable, we would be required to modify our growth and operating plans to the extent of available funding, which could harm our ability to grow our business.

If we do not generate significant additional revenue we will continue to receive a going concern qualification in our audit.

Our financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The financial statements do not reflect any adjustments that might result if we are unable to continue as a going concern. We do not generate sufficient revenue and have negative cash flow from operations, which raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, an additional cash infusion. We are actively seeking new investors.

We may not be successful in executing our acquisition strategy.

Our future growth will largely depend on the successful continued execution of our acquisition strategy. If we are unable to acquire other companies in the mobile marketing sector, our growth, valuation and prospects will be adversely affected. It is possible that acquisition targets will not be receptive to either the valuation offered or our intention to pay for acquisitions using our common stock as the “currency”. If we are unable to grow other than organically, our growth prospects will be reduced and our ability to raise capital on acceptable terms and the value of our common stock will both be compromised.

In addition, our future acquisitions may be expensive and time-consuming and we may not realize anticipated benefits from them. The specific risks we may encounter in these types of transactions include the following:

Potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets, which could adversely affect our results of operations and financial condition;

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The possibility that staff or customers of the acquired company might not accept new ownership and may transition to different technologies or attempt to renegotiate contract terms or relationships;

The possibility that the due diligence process in any such acquisition may not completely identify material issues associated with product and service quality, intellectual property issues, key personnel issues or legal and financial contingencies; and

Difficulty in integrating acquired operations due to technology constraints or geographical distance.

A failure to successfully integrate acquired businesses for any of these reasons could have a material adverse effect on our results of operations.

Our sales efforts to large enterprises require significant time and effort and could hinder our ability to expand our customer base and increase revenue.

Attracting new customers to our large enterprise division requires substantial time and expense, especially in an industry that is so heavily dependent on personal relationships with executives. We cannot assure that we will be successful in establishing new relationships, or maintaining or advancing our current relationships. For example, it may be difficult to identify, engage and market to customers who do not currently perform mobile marketing or advertising or are unfamiliar with our current services or platform. Further, many of our customers typically require input from one or more internal levels of approval. As a result, during our sales effort, we must identify multiple people involved in the purchasing decision and devote a sufficient amount of time to presenting our products and services to those individuals. The complexity of our services, including our software-as-a-service model, often requires us to spend substantial time and effort assisting potential customers in evaluating our products and services including providing demonstrations and benchmarking against other available technologies. We expect that our sales process will become less burdensome as our products and services become more widely known and used. However, if this change does not occur, we will not be able to expand our sales effort as quickly as anticipated and our sales will be adversely affected.

We may not be able to enhance our mobile marketing and advertising platform to keep pace with technological and market developments, or to remain competitive against potential new entrants in our markets.

The market for mobile marketing and advertising services is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. Our current platform or platforms we may offer in the future may not be acceptable to marketers and advertisers. To keep pace with technological developments, satisfy increasing customer requirements and achieve acceptance of our marketing and advertising campaigns, we will need to enhance our current mobile marketing solutions and continue to develop and introduce on a timely basis new, innovative mobile marketing services offering compatibility, enhanced features and functionality on a timely basis at competitive prices. Our inability, for technological or other reasons, to enhance, develop, introduce and deliver compelling mobile marketing services in a timely manner, or at all, in response to changing market conditions, technologies or customer expectations could have a material adverse effect on our operating results or could result in our mobile marketing services platform becoming obsolete. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our mobile marketing services platform with evolving industry standards and protocols. In addition, as we believe the mobile marketing market is likely to grow substantially, other companies which are larger and have significantly more capital to invest than us may emerge as competitors. For example, in May 2010, Google, Inc. acquired Admob, Inc. Similarly, in January 2010, Apple, Inc. acquired Quattro Wireless, Inc. New entrants could seek to gain market share by introducing new technology or reducing pricing. This may make it more difficult for us to sell



our products and services, and could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

Our Enterprise customer contracts lack uniformity and often are complex, which subjects us to business and other risks.

A portion of our customers include some of the largest enterprises which have substantial purchasing power and negotiating leverage. As a result, we typically negotiate contracts on a customer-by-customer basis and our contracts lack uniformity and are often complex. If we are unable to effectively negotiate, enforce and account and bill in an accurate and timely manner for contracts with our key customers, our business and operating results may be adversely affected. In addition, we could be unable to timely recognize revenue from contracts that are not managed effectively and this would further adversely impact our financial results.

Our services are provided on mobile communications networks that are owned and operated by third parties who we do not control and the failure of any of these networks would adversely affect our ability to deliver our services to our customers.

Our mobile marketing and advertising platform is dependent on the reliability of mobile operators who maintain sophisticated and complex mobile networks. Such mobile networks have historically, and particularly in recent years, been subject to both rapid growth and technological change. If the network of a mobile operator with which we are integrated should fail, including because of new technology incompatibility, the degradation of network performance under the strain of too many mobile consumers using it, or a general failure from natural disaster or political or regulatory shut-down, we will not be able provide our services to our customers through such mobile network. This in turn, would impair our reputation and business, potentially resulting in a material, adverse effect on our financial results.

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If our mobile marketing and advertising services platform does not scale as anticipated, our business will be harmed.

We must be able to continue to scale to support potential ongoing substantial increases in the number of users in our actual commercial environment, and maintain a stable service infrastructure and reliable service delivery for our mobile marketing and advertising campaigns. In addition, we must continue to expand our service infrastructure to handle growth in customers and usage. If our mobile marketing services platform does not efficiently and effectively scale to support and manage a substantial increase in the number of users while maintaining a high level of performance, the quality of our services could decline and our business will be seriously harmed. In addition, if we are unable to secure data center space with appropriate power, cooling and bandwidth capacity, we may not be able to efficiently and effectively scale our business to manage the addition of new customers and overall mobile marketing campaigns.

The success of our business depends, in part, on wireless carriers continuing to accept our customers' messages for delivery to their subscriber base.

We depend on wireless carriers to deliver our customers' messages to their subscriber base. Wireless carriers often impose standards of conduct or practice that significantly exceed current legal requirements and potentially classify our messages as "spam," even where we do not agree with that conclusion. In addition, the wireless carriers use technical and other measures to attempt to block non-compliant senders from transmitting messages to their customers; for example, wireless carriers block short codes or Internet Protocol addresses associated with those senders. There can be no guarantee that we, or short codes registered to us, will not be blocked or blacklisted or that we will be able to successfully remove ourselves from those lists. Although our services typically require customers to opt-in to a campaign, minimizing the risk that our customers' messages will be characterized as spam, blocking of this type could interfere with our ability to market products and services of our customers and communicate with end users and could undermine the effectiveness of our customers' marketing campaigns. To date we have not experienced any material blocking of our messages by wireless carriers, but any such blocking could have an adverse effect on our business and results of operations.

We depend on third party providers for a reliable Internet infrastructure and the failure of these third parties, or the Internet in general, for any reason would significantly impair our ability to conduct our business.

We outsource all of our data center facility management to third parties who host the actual servers and provide power and security in multiple data centers in each geographic location. These third party facilities require uninterrupted access to the Internet. If the operation of our servers is interrupted for any reason, including natural disaster, financial insolvency of a third party provider, or malicious electronic intrusion into the data center, our business would be significantly damaged. As has occurred with many Internet-based businesses, on occasion in the past, we have been subject to "denial-of-service" attacks in which unknown individuals bombarded our computer servers with requests for data, thereby degrading the servers' performance. While we have historically been successful in relatively quickly identifying and neutralizing these attacks, we cannot be certain that we will be able to do so in the future. If either a third party facility failed, or our ability to access the Internet was interfered with because of the failure of Internet equipment in general or we become subject to malicious attacks of computer intruders, our business and operating results will be materially adversely affected.

Failure to adequately manage our growth may seriously harm our business.

We operate in an emerging technology market and have experienced, and may continue to experience, significant growth in our business. If we do not effectively manage our growth, the quality of our products and services may suffer, which could negatively affect our brand and operating results. Our growth has placed, and is expected to continue to place, a significant strain on our managerial, administrative, operational and financial resources and our

infrastructure. Our future success will depend, in part, upon the ability of our senior management to manage growth effectively. This will require us to, among other things:

- implement additional management information systems;
- further develop our operating, administrative, legal, financial and accounting systems and controls;
- hire additional personnel;
- develop additional levels of management within our company;
- locate additional office space in various countries; and
- maintain close coordination among our engineering, operations, legal, finance, sales and marketing and customer service and support organizations.

Moreover, as our sales increase, we may be required to concurrently deploy our services infrastructure at multiple additional locations or provide increased levels of customization. As a result, we may lack the resources to deploy our mobile marketing services on a timely and cost-effective basis. Failure to accomplish any of these requirements would seriously harm our ability to deliver our mobile marketing services platform in a timely fashion, fulfill existing customer commitments or attract and retain new customers.

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We depend on the services of key personnel to implement our strategy. If we lose the services of our key personnel or are unable to attract and retain other qualified personnel, we may be unable to implement our strategy.

We believe that the future success of our business depends on the services of a number of key management and operating personnel, including Dennis Becker, our Chief Executive Officer, Timothy Schatz, our Chief Financial Officer, Greg Harris, our Vice President of Technology, and Michael Falato, Senior Vice President of Business Development. We currently have an employment agreement in place with Mr. Becker. We do not maintain any key-person life insurance policies. Some of these key employees have strong relationships with our customers and our business may be harmed if these employees leave us. The loss of members of our key management and certain other members of our operating personnel could materially adversely affect our business, operating results and financial condition.

In addition, our ability to manage our growth depends, in part, on our ability to identify, hire and retain additional qualified employees, including a technically skilled development and engineering staff. We face intense competition for qualified individuals from numerous technology, marketing and mobile software and service companies. We require a mix of highly talented engineers as well as individuals in sales and support who are familiar with the marketing and advertising industry. In addition, new hires in sales positions require significant training and may, in some cases, take more than a year before they achieve full productivity. Our recent sales force hires and planned hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. Further, given the rapid pace of our expansion to date, we may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing, creative, operational and managerial requirements, or may be required to pay increased compensation in order to do so. If we are unsuccessful in attracting and retaining these key personnel, our ability to operate our business effectively would be negatively impacted and our business, operating results and financial condition would be adversely affected.

The gathering, transmission, storage and sharing or use of personal information could give rise to liabilities or additional costs of operation as a result of governmental regulation, legal requirements, civil actions or differing views of personal privacy rights.

We transmit and store a large volume of personal information in the course of providing our services. Federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from our customers and their users. Any failure, or perceived failure, by us to comply with U.S. federal, state, or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business, operating results and financial condition. Additionally, we may also be contractually liable to indemnify and hold harmless our customers from the costs or consequences of inadvertent or unauthorized disclosure of their customers' personal data which we store or handle as part of providing our services.

The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally, particularly with regard to location-based services, use of customer data to target advertisements and communication with consumers via mobile devices. Such laws may be interpreted and applied inconsistently from country to country and inconsistently with our current data protection policies and practices. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business, operating results or financial condition.

As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of personal information. These and other privacy concerns, including security breaches, could adversely impact our business, operating results and financial condition.

In the U.S., we have voluntarily agreed to comply with wireless carrier technological and other requirements for access to their customers' mobile devices, and also trade association guidelines and codes of conduct addressing the provision of location-based services, delivery of promotional content to mobile devices and tracking of users or devices for the purpose of delivering targeted advertising. We could be adversely affected by changes to these requirements, guidelines and codes, including in ways that are inconsistent with our practices or in conflict with the rules or guidelines in other jurisdictions.

Our management team has limited experience in public company matters, which could impair our ability to comply with legal and regulatory requirements.

Our management team has only limited public company management experience or responsibilities, which could impair our ability to comply with legal and regulatory requirements such as the Sarbanes-Oxley Act of 2002 and applicable federal securities laws including filing required reports and other information required on a timely basis. There can be no assurance that our management will be able to implement and affect programs and policies in an effective and timely manner that adequately respond to increased legal, regulatory compliance and reporting requirements imposed by such laws and regulations. Our failure to comply with such laws and regulations could lead to the imposition of fines and penalties and further result in the deterioration of our business.

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### Risks Related to our Common Stock

There has been a limited trading market for our common stock.

There has been a limited trading market for our common stock on the Over-the-Counter Bulletin Board. The lack of an active market may impair the ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using common stock as consideration.

Our freely trading share volume will increase significantly.

We have issued and intend to continue to issue additional common shares in the execution of our acquisition strategy, both increasing the number of free trading shares and dilution. This increase in both free trading shares and total shares outstanding may have a depressive effect on our stock price and a deleterious effect on our ability to both raise additional equity capital and complete acquisitions using our common stock as the principal currency.

You may have difficulty trading and obtaining quotations for our common stock.

Our common stock may not be actively traded, and the bid and asked prices for our common stock on the Over-the-Counter Bulletin Board may fluctuate widely. As a result, investors may find it difficult to dispose of, or to obtain accurate quotations of the price of, our securities. This severely limits the liquidity of the common stock, and would likely reduce the market price of our common stock and hamper our ability to raise additional capital.

The market price of our common stock may be, and is likely to continue to be, highly volatile and subject to wide fluctuations.

The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including:

- dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we expect to make in connection with future acquisitions or capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;
- announcements of new acquisitions or other business initiatives by our competitors;
- our ability to take advantage of new acquisitions or other business initiatives;
- quarterly variations in our revenues and operating expenses;
- changes in the valuation of similarly situated companies, both in our industry and in other industries;
- changes in analysts' estimates affecting us, our competitors and/or our industry;
- changes in the accounting methods used in or otherwise affecting our industry;
- additions and departures of key personnel;
- announcements by relevant governments pertaining to additional quota restrictions; and
- fluctuations in interest rates and the availability of capital in the capital markets.

These and other factors are largely beyond our control, and the impact of these risks, singly or in the aggregate, may result in material adverse changes to the market price of our common stock and/or our results of operations and financial condition.

Our operating results may fluctuate significantly, and these fluctuations may cause our stock price to decline.

Our operating results will likely vary in the future primarily as the result of fluctuations in our revenues and operating expenses, expenses that we incur, prices of feed used in our business, the price that customer are willing and able to pay for our products and other factors. If our results of operations do not meet the expectations of current or potential investors, the price of our common stock may decline.

We do not expect to pay dividends in the foreseeable future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms or at all. Investors cannot be assured of a positive return on investment or that they will not lose the entire amount of their investment in the common stock.

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Our directors and officers will have a high concentration of common stock ownership.

Based on the 22,754,308 shares of common stock that are outstanding as of December 31, 2011, our officers and directors will beneficially own approximately 34.4% of our outstanding common stock. Such a high level of ownership by such persons may have a significant effect in delaying, deferring or preventing any potential change in control of our company. Additionally, as a result of their high level of ownership, our officers and directors might be able to strongly influence the actions of our board of directors and the outcome of actions brought to our shareholders for approval. Such a high level of ownership may adversely affect the voting and other rights of our shareholders.

Applicable SEC rules governing the trading of “penny stocks” limit the trading and liquidity of our common stock, which may affect the trading price of our common stock.

Shares of common stock may be considered a “penny stock” and be subject to SEC rules and regulations which impose limitations upon the manner in which such shares may be publicly traded and regulate broker-dealer practices in connection with transactions in “penny stocks.” Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules which may increase the difficulty investors may experience in attempting to liquidate such securities.

Item 2. Properties

We currently lease 6,730 square feet of office space located at 58 W. Buffalo St., Chandler, Arizona at a monthly expense of \$10,850. The original 63 month lease term expires December 31, 2015. We believe the property is sufficient for our needs at this time. We also lease approximately 400 square feet of satellite office space located at 10251 Vista Sorrento Pkwy, San Diego, California, at a monthly expense of \$1,800, on a month to month basis.

Item 3. Legal Proceedings

We are not currently involved in any legal proceedings and we are not aware of any pending or potential legal actions.

Item 4. Removed and Reserved



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## Part II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matter and Issuer Purchases of Equity Securities

Our common stock has been included for quotation on the OTC Bulletin Board under the stock symbol "MFON" since December 9, 2010. From January 2010 to that date, our stock was traded on the OTC.BB under the symbol "AREV".

Our common stock trades only sporadically and has experienced in the past, and is expected to experience in the future, significant price and volume volatility.

The following table shows the reported high and low closing bid quotations per share for our common stock based on information provided by the OTC Bulletin Board for the periods indicated. Quotations reflect inter-dealer prices, without markup, markdown or commissions and may not represent actual transactions.

| Year Ended December 31, 2011 | HIGH    | LOW     |
|------------------------------|---------|---------|
| Fourth Quarter               | \$ 1.60 | \$ 0.37 |
| Third Quarter                | \$ 2.00 | \$ 1.10 |
| Second Quarter               | \$ 3.35 | \$ 1.25 |
| First Quarter                | \$ 4.25 | \$ 1.45 |

| Year Ended December 31, 2010 | High    | Low    |
|------------------------------|---------|--------|
| Fourth Quarter               | \$ 1.50 | \$ .10 |
| Third Quarter                | \$ .10  | \$ .10 |
| Second Quarter               | \$ .10  | \$ .10 |
| First Quarter                | \$ .10  | \$ .10 |

## Holders of Record

As of March 2, 2012, there were approximately 58 holders of record of our common stock.

## Dividend Policy

We paid no cash dividends in respect of our common stock during our two most recent fiscal years, and we have no plans to pay any dividends or make any other distributions in the foreseeable future. The payment by us of dividends, if any, in the future, rests within the discretion of our board of directors and will depend, among other things, upon our earnings, capital requirements and financial condition.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth additional information as of December 31, 2011 with respect to the shares of common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements in effect December 31, 2011. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and the number of shares remaining available for future grant, excluding the shares to be issued upon exercise of outstanding options.

| Plan Category | Number of securities to be issued upon | Weighted-average exercise price of outstanding options | Number of securities remaining available for |
|---------------|--|--|--|
|---------------|--|--|--|

|   | exercise of<br>outstanding options |              | future issuance<br>under equity<br>compensation<br>plans (excluding<br>securities<br>reflected in<br>column (a)) |
|---|------------------------------------|--------------|--|
|   | (a)                                | (b)          | (c)  |
| Equity compensation plans not approved<br>by security holders (1) | 2,515,000                          | \$.64        | 609,000  |
| <b>Total</b>  | <b>2,515,000</b>                   | <b>\$.64</b> | <b>609,000</b>   |

(1) Comprised of our 2010 Incentive Stock Plan

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Item 6. Selected Financial Data

As a smaller reporting company, as defined by Section 10(f)(1) of Regulation S-K we are not required to provide the information set forth in this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the related notes and other information that are included elsewhere in this Form 10-K. This discussion contains forward looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward looking statements as a result of a number of factors, including those set forth under the cautionary note regarding "Forward Looking Statements" contained elsewhere in this Form 10-K. Additionally, you should read the "Risk Factors" sections of this Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a provider of technology that enables major brands and enterprises to engage consumers via their mobile phone. Interactive electronic communications with consumers is a complex process involving communication networks and software. We remove this complexity through our suite of services and technologies thereby enabling brands, marketers, and content owners to communicate with their customers and consumers in general. From Presidential elections to major broadcast events, we are pioneers in the deployment of the mobile channel as the ultimate direct connection to the consumer.

Mobile phone users represent a large and captive audience. While televisions, radios, and even PCs are often shared by multiple consumers, mobile phones are personal devices representing a truly unique and individual address to the end user. The future of digital media will be driven by mobile phones where a direct, personal conversation can be had with the world's largest audience. The future of mobile includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life. Over 5.5 million consumers have been engaged via their mobile device thanks to our technology.

We believe that our mobile marketing and advertising campaign platform is among the most advanced in the industry as it allows real time interactive communications with consumers. We generate revenue from licensing our software to clients in our software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services.

Our "C4" Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution enabling our clients to develop, execute, and manage a variety of engagements to a consumer's mobile phone. Short Messaging Service (SMS), Multi-Media Messaging (MMS), and Interactive Voice Response (IVR) interactions can all be facilitated via a set of Graphical User Interfaces (GUIs). Reporting and analytics capabilities are also available to our users through the C4 solution.

Mobile devices are emerging as the principal interactive channel for brands to reach consumers since it is the only media platform that has access to the consumer virtually anytime and anywhere. Brands and advertising agencies are recognizing the unique benefits of the mobile channel and they are increasingly integrating mobile media within their overall advertising and marketing campaigns. Our objective is to become the industry leader in connecting brands and enterprises to consumers' mobile phones.

## Results of Operations

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the related notes and other information that are included elsewhere in this Form 10-K. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the cautionary note regarding “Forward-Looking Statements” contained elsewhere in this Form 10-K. Additionally, you should read the “Risk Factors” section of this Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

### Revenues

Revenues for the year ended December 31, 2011 were \$2,524,265, an increase \$1,605,049, or 175%, compared to the year ended December 31, 2010. Increases related to revenues from acquired business operations of \$1,953,833 were offset by reductions in revenue of \$348,785 from the CommerceTel legacy legacy VoIP operating segment. This decrease resulted from continued attrition of VoIP customers, a revenue stream that CommerceTel has chosen not to continue pursuing.

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Cost of Revenues

Cost of revenue for the year ended December 31, 2011 was \$986,854, an increase of \$568,984, or 136% compared to the same period in 2010. This increase is due to increased costs for SMS transmission, short code fees, sales commissions, co-location costs, and merchant fees resulting from the three acquired operating segments. This increase was offset by reductions in costs related to IVR and VoIP revenue declines.

Gross Profit

Gross profit for the year ended December 31, 2011 was \$1,537,411, an increase of \$1,036,065, or 207%, compared to the same period in 2010. Gross profit as a percentage of revenue for the year ended December 31, 2011 increased to 60.9% compared to 54.5% in 2010.

Sales & Marketing Expense

Sales & Marketing expenses for the years ended December 31, 2011 and 2010 were \$583,284 and \$225,783, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, sales travel, consulting costs and other expenses. The increase of \$357,501 was due to an increase in sales and marketing headcount resulting from the acquired operations and an increase in sales and marketing related travel as compared to 2010.

Engineering, Research, & Development Expense

Engineering, research, and development expenses for the years ended December 31, 2011 and 2010 were \$347,884 and \$405,819, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The decrease of \$57,935 was due to a decrease in consulting expense due to a reduction of two engineering contractors, offset by an increase in stock-based compensation expense.

General & Administrative

General and administrative expenses for the years ended December 31, 2011 and 2010 were \$3,625,799 and \$1,157,131, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The increase of \$2,468,668 was due primarily to the addition of 16 employees, one additional facility, and accounting and legal expenses resulting from our three acquisitions in 2011, and other general administrative expenses.

Goodwill and Intangible Asset Impairment

At year end 2011, the Company incurred Goodwill Impairment charges of \$10,435,170, and Intangible Asset Impairment charges of \$1,325,134 related to the three acquisitions it completed during 2011 due to its valuation of these assets at December 31, 2011. The resulting charges were increased due to the adjustment in stock price used in the underlying valuation calculations, as discussed in Note 15 of the financial statements. As a result, the company has conservatively reduced the value of these assets at December 31, 2011. The Company believes the 2011 acquisitions have performed substantially in line with expectations.

Loss from Operations

Net loss for the year ended December 31, 2011 was \$15,530,932, an increase of \$14,237,197, or 1100%, compared to the year ended December 31, 2010. The Loss from Operations for 2011 includes non-cash related Goodwill

Impairment charges of \$10,435,170, and Intangible Asset Impairment charges of \$1,325,134.

#### Other Income

We had other income of \$176 for the year ended December 31, 2011, compared to \$199,401 for the year ended December 31, 2010. The decrease related to debt settlement agreements negotiated in 2010 resulting in one-time gains of \$199,401.

#### Interest Expense

Interest expense for the year ended December 31, 2011 increased \$423,827 or 352%, compared to the year ended December 31, 2010, due to additional interest expense resulting from 10% convertible bridge notes outstanding the entire year 2011, and issuance of additional bridge notes. (See Bridge Note Financing).

#### Change in Fair Market Value of Derivative Liabilities

Change in fair market value for derivative liabilities for the year ended December 31, 2011 and 2010 were \$1,234,145 and \$14,861, respectively. The increase is due to embedded derivatives in warrants and price protection from our 2011 private placement, and additional convertible bridge notes issued in 2011. (See Bridge Note Financing and 2011 Private Placement).

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### Depreciation and Amortization Expense

Depreciation and amortization expense for the year ended December 31, 2011 and 2010 were \$751,052 and \$6,348, respectively. The current year expense includes \$724,364 of amortization expenses which are primarily due to the amortization of intangibles assets acquired in the Mobivity, Txtstation and Boomtext acquisitions.

### Net Loss

Net Loss for the year ended December 31, 2011 and December 31, 2010 were \$16,312,989 and \$1,229,583 respectively. The Net Loss for 2011 and 2010 included \$14,583,712 and \$241,726, respectively, of non-cash charges.

### Liquidity and Capital Resources

As of December 31, 2011, we had current assets of \$260,166, including \$396 in cash, and current liabilities of \$5,182,219. As of December 31, 2010, we had current assets of \$490,684, including \$373,439 in cash, and current liabilities of \$1,749,579.

### Sources of Liquidity

**Operating Activities.** Our operating activities resulted in net cash used by operations of \$890,684 for the year ended December 31, 2011 compared to net cash used by operations of \$818,957 for the year ended December 31, 2010.

The operating results for the year ended December, 2011 reflects a net loss of \$16,312,989 offset by goodwill and intangible asset impairment of \$11,760,304, depreciation and amortization of \$751,072, bad debt expense of \$21,514, share based compensation of \$1,380,256, stock issued for services of \$25,000, change in fair market value of derivative liability of \$1,234,145, amortization of deferred financing costs of \$39,958, a gain on adjustment in contingent consideration, and amortization of note discounts of \$370,810. For the year ended December 31, 2011 the non-cash charges totaled \$14,583,712. Changes in operating assets and liabilities included an increase in accounts receivable of \$216,145, an increase in accounts payable of \$576,305, increase in accrued interest of \$112,796, increase in deferred personnel compensation of \$118,050, increase in other liabilities of \$176,085, increase in deferred revenues and customer deposits of \$72,887, and other minor factors.

The operating results for the year ended December 31, 2010 reflects a net loss of \$1,229,583 offset by gains on debt extinguishment of \$199,401, depreciation of \$6,348, bad debt expense of \$6,276, share based compensation of \$156,785, change in fair market value of derivative liability of \$14,861, amortization of deferred financing costs of \$6,667, and amortization of note discounts of \$50,789. Changes in operating assets and liabilities included an increase in accounts payable of \$255,443, increase in deferred personnel compensation of \$147,359, decrease in deferred revenues and customer deposits of \$94,386, and other minor factors.

**Investing Activities.** Our investing activities resulted in a net cash outflow of \$299,022 for the year ended December 31, 2011 compared to a net cash outflow of \$0 for the year ended December 31, 2010. The increase was primarily due to acquisition of intangible assets and cash paid for acquisitions.

**Financing Activities.** Our financing activities resulted in a cash inflow of \$816,664 for the year ended December 31, 2011 and \$1,181,393 for the year ended December 31, 2010. In 2011, financing activities consisted of \$1,011,203 in proceeds from issuance of common stock and warrants, offset by \$194,539 in payments (net of proceeds) on notes payable and cash obligation, and other minor factors. In 2010, financing activities consisted of \$249,897 in cash contribution from former parent company, \$915,000 in proceeds (net of payments) from notes payable, and other minor factors.

Non Cash Financing Activities. In 2011 non cash financing activities totaling \$11,891,499 consisted of \$11,318,069 in common stock issued for acquisitions, \$230,271 conversion of notes payable and accrued interest into common stock, \$149,197 in debt discounts, \$143,961 in the effect of conversion of debt into common stock in derivative liability, and \$50,000 in common stock issued for acquisition of patent.

We anticipate, based on currently proposed plans and assumptions relating to our ability to market and sell our products, that our cash on hand will not satisfy our operational and capital requirements for the next 6 months. In addition, on May 2, 2012, we are required to repay bridge loan obligations in the amount of \$1,717,600, unless the existing bridge note holders agree to extend the maturity or they convert their bridge loan into equity. Additionally, the operations of our business and our efforts to grow our business further both through acquisitions and organically will require significant cash outlays and commitments. The timing and amount of our cash needs may vary significantly depending on numerous factors. Our existing working capital is not sufficient to meet our cash requirements and we are seeking additional capital, potentially through debt, or equity financings, to fund our growth.

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



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### Bridge Note Financing

On November 2, 2010, we issued to a number of accredited investors a series of our 10% Senior Secured Convertible Bridge Note (the “Notes”) in the aggregate principal amount of \$1,000,000 (the “Financing”). The Notes accrue interest at the rate of 10% per annum. The entire principal amount of the Notes plus all accrued and unpaid interest is due on the earlier of (i) the date we complete a financing transaction for the offer and sale of shares of our common stock (including securities convertible into or exercisable for our common stock), in an aggregate amount of no less than 125% of the principal amounts evidenced by the Notes (a “Qualifying Financing”), or (ii) November 3, 2011. To date, \$210,000 in principal of these Notes has been converted into common equity at \$1.50 per share with the remaining portion having extended the maturity date to May 2, 2012. On the maturity date of the Notes, in addition to the repayment of the principal amount and all accrued and unpaid interest, we will issue to each holder of the Notes, at each such holder’s option, (i) three year warrants to purchase that number of shares of our common stock equal to the principal amount of (plus all accrued and unpaid interest on) the Notes held by the holder divided by the per share purchase price of the common stock offered and sold in the Qualifying Financing (the “Offering Price”) which warrants shall be exercisable at the Offering Price, or (ii) that number of shares of common stock equal to the product arrived at by multiplying (x) the principal amount of (plus all accrued and unpaid interest on) the Notes held by the holder, divided by the Offering Price and (y) 0.33. Our obligations under the Notes are secured by all of our assets, including all shares of CommerceTel, Inc., our wholly owned subsidiary.

In November, 2011, we issued to a number of accredited investors an additional series of 10% Senior Secured Convertible Bridge Notes in the aggregate principal amount of \$262,500. In 2012, we issued additional Notes in the aggregate of \$645,000. As of April 10, 2012 there is \$1,717,627 in principal amount of outstanding notes, due May 2, 2012.

In consideration for the Holder’s agreement to extend the maturity date of the Notes to May 2, 2012, the Company agreed to issue to the Holder a number of shares of Borrower’s common stock equal to the amount of accrued and unpaid interest due under the Note as of January 31, 2012 divided by the Offering Price of a future private placement.

In March, 2012, a note holder was repaid \$65,000 in principal and interest.

### 2011 Private Placement

We commenced a private placement in late March 2011, and continued until November 2011. As of April 1, 2012, we have raised gross proceeds of \$1,033,002. The private placement structure consists of a series of identical subscription agreements offering subscribers an opportunity to invest in units comprised of shares of our common stock at a price of \$1.50 per share and an equivalent number of warrants at an exercise price of \$2.00. Both the shares and the warrants are price protected by us. The price protection obligates us to issue to the investors an additional number of shares in the event that common shares are issued at a price below \$1.50 before August 31, 2012.

### Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made, including those related to share based compensation and valuation of the derivative liability. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ

from these estimates.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

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### Revenue recognition

The Company's "C4" Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution, as is the newly acquired Txtstation Control Center platform. The Company generates revenue from licensing its software to clients in its software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services. The Company recognizes license fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. The Company recognizes revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. The Company considers authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting. As for the newly acquired Mobivity and Boomtext platforms, which are both hosted solutions, revenue is principally derived from subscription fees from customers. The subscription fee is billed on a month to month basis with no contractual term and is collected by credit card for Mobivity and collected by cash and credit card for Boomtext. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. Cash received in advance of the performance of services is recorded as deferred revenue. At December 31, 2011 and 2010, deferred revenues totaled \$309,063 and \$215,430, respectively.

### Share-based compensation expense

Share-based compensation cost is measured at the date of grant, based on the calculated fair value of the stock-based award, and is recognized as expense over the employee's requisite service period (generally the vesting period of the award). The Company estimates the fair value of employee stock options granted using the Black-Scholes Option Pricing Model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the fair value of the Company's common stock on the date of grant, the expected option term, the risk free interest rate at the date of grant, the expected volatility and the expected annual dividend yield on the Company's common stock. We use comparable public company data among other information to estimate the expected price volatility and the expected forfeiture rate.

### Derivative Financial Instruments

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

The Company reviews the terms of convertible debt and equity instruments it issues to determine whether there are embedded derivative instruments, including the embedded conversion option, that are required to be bifurcated and accounted for separately as a derivative financial instrument. In circumstances where the convertible instrument contains more than one embedded derivative instrument, including the conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. Also, in connection with the sale of convertible debt and equity instruments, the Company may issue freestanding warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

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

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

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

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

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Item 8.

Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
CommerceTel Corporation  
Chandler, AZ 85225

We have audited the accompanying consolidated balance sheets of CommerceTel Corporation. (the “Company”) as of December 31, 2011 and the related statements of operations, stockholders' equity (deficit) and cash flows for the twelve month period then ended. The financial statements for the period ended December 31, 2010 were audited by other auditors whose report expressed an unqualified opinion on the consolidated financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CommerceTel Corporation. as of December 31, 2011 and the results of its operations and cash flows for the period described above in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred recurring operating losses and negative cash flows from operations and is dependent on additional financing to fund operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC  
www.mkacpas.com  
Houston, Texas  
April 16, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CommerceTel Corporation

We have audited the accompanying consolidated balance sheet of CommerceTel Corporation as of December 31, 2010, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CommerceTel Corporation as of December 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred recurring operating losses and negative cash flows from operations and is dependent on additional financing to fund operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Mayer Hoffman McCann P.C.  
San Diego, California  
April 14, 2011

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Item 8.

## Financial Statements

CommerceTel Corporation  
Consolidated Balance Sheets

|  | Years ended December 31, |             |
|--|--------------------------|-------------|
|  | 2011                     | 2010        |
| Current assets   |                          |             |
| Cash   | \$396                    | \$373,439   |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$18,050 and \$0, respectively   | 243,846                  | 49,215      |
| Other current assets   | 15,924                   | 68,030      |
| Total current assets   | 260,166                  | 490,684     |
| Equipment, net   | 25,316                   | 1,609       |
| Goodwill   | 3,002,070                | -           |
| Intangible assets, net   | 1,116,506                | -           |
| Other assets   | 197,046                  | 46,317      |
| TOTAL ASSETS   | \$4,601,104              | \$538,610   |
| Current liabilities  |                          |             |
| Accounts payable   | \$842,777                | \$151,943   |
| Accrued interest   | 130,426                  | 37,901      |
| Accrued and deferred personnel compensation  | 237,691                  | 119,641     |
| Deferred revenue - related party   | 200,000                  | -           |
| Deferred revenue and customer deposits   | 126,525                  | 233,318     |
| Convertible notes payable, net of discount   | 1,002,730                | 731,172     |
| Notes payable, net of discount   | 736,270                  | 71,984      |
| Cash payment obligation, net of discount   | 86,714                   | -           |
| Derivative liabilities   | 1,573,859                | 334,478     |
| Other current liabilities  | 245,227                  | 69,142      |
| Total current liabilities  | 5,182,219                | 1,749,579   |
| Non-current liabilities  |                          |             |
| Settlement payable   | 125,846                  | -           |
| Earn-out payable   | 2,658,238                | -           |
| Total non-current liabilities  | 2,784,084                | -           |
| Total liabilities  | 7,966,303                | 1,749,579   |
| Stockholders' equity (deficit)   |                          |             |
| Common stock, \$0.001 par value; 150,000,000<br>shares authorized; 22,754,308 and 17,700,000 shares<br>issued and outstanding as of December 31, 2011 and<br>December 31, 2010, respectively | 22,754                   | 17,700      |
| Additional paid-in capital   | 21,099,289               | 6,945,584   |
| Accumulated deficit  | (24,487,242)             | (8,174,253) |
| Total stockholders' equity (deficit)   | (3,365,199 )             | (1,210,969) |

|  |             |           |
|--|-------------|-----------|
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT) | \$4,601,104 | \$538,610 |
|--|-------------|-----------|

See accompanying notes to condensed consolidated financial statements.

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CommerceTel Corporation

## Consolidated Statements of Operations

|  | Year ended<br>December<br>31,<br>2011 | Year ended<br>December 31,<br>2010 |
|--|---------------------------------------|------------------------------------|
| Revenues   |                                       |                                    |
| Revenues   | \$ 2,524,265                          | \$ 919,216                         |
| Cost of revenues   | 986,854                               | 417,870                            |
| Gross margin   | 1,537,411                             | 501,346                            |
| Operating expenses   |                                       |                                    |
| General & administrative   | 3,625,799                             | 1,157,131                          |
| Sales & marketing  | 583,284                               | 225,783                            |
| Engineering, research, & development                                       | 347,884                               | 405,819                            |
| Depreciation & amortization  | 751,072                               | 6,348                              |
| Goodwill Impairment  | 10,435,170                            | -                                  |
| Intangible asset impairment  | 1,325,134                             | -                                  |
| Total operating expenses   | 17,068,343                            | 1,795,081                          |
| Loss from operations   | (15,530,932)                          | (1,293,735)                        |
| Other income/(expense)   |                                       |                                    |
| Interest income  | 176                                   | -                                  |
| Interest expense, net  | (544,215)                             | (120,388)                          |
| Change in fair market value of derivative liabilities                      | (1,234,145)                           | (14,861)                           |
| Gain on debt extinguishment  | -                                     | 199,401                            |
| Gain on adjustment in contingent consideration                             | 999,347                               | -                                  |
| Total other income/(expense)   | (778,837)                             | 64,152                             |
| Loss before income taxes   | (16,309,769)                          | (1,229,583)                        |
| Income tax expense   | (3,220)                               | -                                  |
| Net loss   | \$ (16,312,989)                       | \$ (1,229,583)                     |
| Net loss per share - basic and diluted                                     | \$ (0.78)                             | \$ (0.14)                          |
| Weighted average number of shares<br>during the period - basic and diluted | 20,910,334                            | 8,950,585                          |

See accompanying notes to condensed consolidated financial statements.

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CommerceTel Corporation  
Consolidated Statements of Stockholders' Equity (Deficit)

|   | Common Stock |           | Additional         | Accumulated    | Total                                |
|---|--------------|-----------|--------------------|----------------|--------------------------------------|
|   | Shares       | Amount    | Paid-In<br>Capital | Deficit        | Stockholders'<br>Equity<br>(Deficit) |
| Balance, December 31, 2009                                | 7,267,972    | 7,268     | 5,029,240          | (6,944,670 )   | (1,908,162 )                         |
| Capital contributions by former parent                    | -            | -         | 249,897            | -              | 249,897                              |
| Notes and payables converted into common stock            | 2,732,028    | 2,732     | 1,500,866          | -              | 1,503,598                            |
| Recapitalization of CommerceTel, Inc.                     | 7,700,000    | 7,700     | 8,796              | -              | 16,496                               |
| Stock-based compensation                                  | -            | -         | 156,785            | -              | 156,785                              |
| Net loss and comprehensive loss                           | -            | -         | -                  | (1,229,583 )   | (1,229,583 )                         |
| Balance, December 31, 2010                                | 17,700,000   | \$ 17,700 | \$ 6,945,584       | \$(8,174,253 ) | \$(1,210,969 )                       |
| Issuance of common stock and warrants for cash            | 688,669      | 689       | 1,032,314          | -              | 1,033,003                            |
| Issuance of common stock for acquisitions                 | 3,944,540    | 3,945     | 11,314,124         | -              | 11,318,069                           |
| Issuance of common stock for patent rights                | 14,286       | 14        | 49,986             | -              | 50,000                               |
| Issuance of common stock for services                     | 253,298      | 253       | 428,747            | -              | 429,000                              |
| Notes payable converted into common stock                 | 153,515      | 153       | 230,118            | -              | 230,271                              |
| Adjustment to derivative liability due to debt conversion | -            | -         | 143,961            | -              | 143,961                              |
| Stock-based compensation                                  | -            | -         | 976,255            | -              | 976,255                              |
| Equity offering costs                                     | -            | -         | (21,800 )          | -              | (21,800 )                            |
| Net loss  | -            | -         | -                  | (16,312,989)   | (16,312,989)                         |
| Balance, December 31, 2011                                | 22,754,308   | \$ 22,754 | \$ 21,099,289      | \$(24,487,242) | \$(3,365,199 )                       |

See accompanying notes to condensed consolidated financial statements

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CommerceTel Corporation  
Consolidated Statements of Cash Flows

|  | Years ended December 31, |               |
|--|--------------------------|---------------|
|  | 2011                     | 2010          |
| <b>OPERATING ACTIVITIES</b>  |                          |               |
| Net loss   | \$(16,312,989)           | \$(1,229,583) |
| Adjustments to reconcile net loss to net cash used in operating activities:          |                          |               |
| Gain on debt extinguishment  | -                        | (199,401 )    |
| Bad debt expense   | 21,514                   | 6,276         |
| Stock issued for services  | 25,000                   | -             |
| Stock-based compensation   | 1,380,256                | 156,785       |
| Depreciation and amortization expense  | 751,072                  | 6,348         |
| Gain on adjustment in contingent consideration                                       | (999,347 )               |               |
| Change in fair market value of derivative liabilities                                | 1,234,145                | 14,861        |
| Amortization of deferred financing costs   | 39,958                   | 6,667         |
| Amortization of note discounts   | 370,810                  | 50,789        |
| Goodwill impairment  | 10,435,170               | -             |
| Intangible asset impairment  | 1,325,134                | -             |
| Increase (decrease) in cash resulting from changes in:                               |                          |               |
| Accounts receivable  | (216,145 )               | (6,250 )      |
| Other current assets   | 25,331                   | (68,033 )     |
| Other assets   | (1,800 )                 | -             |
| Accounts payable   | 576,304                  | 255,443       |
| Settlement payable   | (24,917 )                | -             |
| Accrued interest   | 112,796                  | 68,288        |
| Accrued and deferred personnel compensation  | 118,050                  | 147,359       |
| Deferred revenue and customer deposits   | 72,887                   | (94,386 )     |
| Other liabilities  | 176,085                  | 65,880        |
| Net cash used in operating activities  | (890,685 )               | (818,957 )    |
| <b>INVESTING ACTIVITIES</b>  |                          |               |
| Purchases of equipment   | (12,189 )                | -             |
| Acquisition of intangible assets   | (77,000 )                | -             |
| Cash paid for acquisitions   | (209,833 )               | -             |
| Net cash used in investing activities  | (299,022 )               | -             |
| <b>FINANCING ACTIVITIES</b>  |                          |               |
| Proceeds from capital contributions by former parent                                 | -                        | 249,897       |
| Proceeds from issuance of notes payable  | 272,500                  | 1,043,615     |
| Payments on notes payable  | (304,539 )               | (128,615 )    |
| Payments on cash payment obligation  | (162,500 )               | -             |
| Proceeds from issuance of common stock and warrants,<br>net of equity offering costs | 1,011,203                | 16,496        |
| Net cash provided by financing activities  | 816,664                  | 1,181,393     |
| Net change in cash   | (373,043 )               | 362,436       |
| Cash at beginning of period  | 373,439                  | 11,003        |
| Cash at end of period  | \$396                    | \$373,439     |
| Supplemental disclosures:  |                          |               |

## Cash paid during period for :

|              |          |         |
|--------------|----------|---------|
| Interest     | \$20,650 | \$1,436 |
| Income Taxes | \$3,220  | \$-     |

## Non cash investing and financing activities:

|  |              |           |
|--|--------------|-----------|
| Debt discount  | \$149,197    | \$319,617 |
| Conversion of accounts payable into common stock                       | \$-          | \$893,469 |
| Conversion of notes payable and interest into common stock             | \$230,272    | \$385,592 |
| Effect of conversion of debt into common stock on derivative liability | \$143,961    | \$-       |
| Shares issued in acquisitions  | \$11,318,069 | -         |
| Conversion of accrued compensation into common stock                   | \$-          | \$224,537 |
| Conversion of notes payable and interest into deferred revenue         | \$-          | \$200,000 |
| Common stock issued for patents and trademarks                         | \$50,000     | \$-       |

See accompanying notes to condensed consolidated financial statements.

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CommerceTel Corporation  
Notes to Consolidated Financial Statements

1. Reverse Merger Transaction and Accounting

Reverse Merger Transaction

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

CommerceTel, Inc. was originally incorporated in Nevada in 2005. The Company was originally incorporated as Ares Ventures Corporation in Nevada in 2008, and was renamed CommerceTel Corporation in 2010.

Reverse Merger Accounting

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

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

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

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

Principles of Accounting and Consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company

and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

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### Going Concern

Our financial statements have been prepared assuming that we will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. However, we have incurred continued losses, have a net working capital deficiency, and have an accumulated deficit of approximately \$24.5 million as of December 31, 2011. These factors among others create a substantial doubt about our ability to continue as a going concern. We are dependent upon sufficient future revenues, additional sales of our securities or obtaining debt financing in order to meet our operating cash requirements. Barring our generation of revenues in excess of our costs and expenses or our obtaining additional funds from equity or debt financing, or receipt of significant licensing prepayments, we will not have sufficient cash to continue to fund the operations of the Company through December 31, 2012. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In response to our Company's cash needs, we received additional equity investments pursuant to a private placement totaling \$1,033,003 as of March 31, 2012. (See Note 8) Longer term, we anticipate that we will continue to raise additional equity financing through the sale of shares of the Company's common stock in order to finance our future investing and operating cash flow needs. Many of the Company's notes have terms of less than 1 year.

We anticipate, based on currently proposed plans and assumptions relating to our ability to market and sell our products, that our cash on hand will not satisfy our operational and capital requirements for the next 12 months. Further, the operation of our business and our efforts to grow our business further both through acquisitions and organically will require significant cash outlays and commitments. The timing and amount of our cash needs may vary significantly depending on numerous factors. Our existing working capital is not sufficient to meet our cash requirements and we will need to seek additional capital, potentially through debt, or equity financings, to fund our growth.

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

### Use of Estimates

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

### Purchase Accounting

The Company accounts for acquisitions pursuant to Accounting Standards Codification ("ASC") No. 805, Business Combinations. The Company records all acquired tangible and intangible assets and all assumed liabilities based

upon their estimated fair values.

#### Cash

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

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## Fair Value Measurements

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

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

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

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

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

| Description                 | Level 1 | Level 2 | Level 3     | Total Gains (Losses) |
|-----------------------------|---------|---------|-------------|----------------------|
| Intangibles (non-recurring) | \$-     | \$-     | \$1,116,506 | \$-                  |
| Goodwill (non-recurring)    | \$-     | \$-     | \$3,002,070 | \$-                  |
| Derivatives (recurring)     | \$-     | \$-     | \$1,573,859 | \$1,234,145          |

The following table presents assets and liabilities that are measured and recognized at fair value as of December 31, 2010 on a recurring and non-recurring basis:

| Description                 | Level 1 | Level 2 | Level 3   | Total Gains (Losses) |
|-----------------------------|---------|---------|-----------|----------------------|
| Intangibles (non-recurring) | \$-     | \$-     | \$-       | \$-                  |
| Goodwill (non-recurring)    | \$-     | \$-     | \$-       | \$-                  |
| Derivatives (recurring)     | \$-     | \$-     | \$334,478 | \$-                  |

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



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The Company has derivative liabilities as a result of 2010 and 2011 convertible promissory notes and common stock and warrants with exercise price reset provisions that include embedded derivatives. These liabilities were valued with the assistance of a valuation consultant and consisted of level 3 valuation techniques.

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

**Accounts Receivable**

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

From time to time, the Company may have a limited number of customers with individually large amounts due. Any unanticipated change in one of the customer's credit worthiness could have a material effect on the results of operations in the period in which such changes or events occurred. The Company recorded an allowance for doubtful accounts of \$18,050 at December 31, 2011, and had no allowance for doubtful accounts at December 31, 2010.

**Equipment**

Equipment is recorded at cost, consists primarily of computer equipment and is depreciated using the straight-line method over the estimated useful lives of the related assets (generally five years or less). Costs incurred for maintenance and repairs are expensed as incurred and expenditures for major replacements and improvements are capitalized and depreciated over their estimated remaining useful lives. Depreciation expense for the years ended December 31, 2011 and 2010 was \$19,712 and \$6,347, respectively. Accumulated depreciation for the Company's equipment at December 31, 2011 and 2010 is \$134,810 and \$115,098, respectively.

Net property and equipment were as follows:

|                               | December 31,<br>2011 | December 31,<br>2010 |
|-------------------------------|----------------------|----------------------|
| Equipment                     | \$ 146,872           | \$ 103,453           |
| Furniture and Fixtures        | 13,254               | 13,254               |
|                               | 160,126              | 116,707              |
| Less accumulated depreciation | (134,810 )           | (115,098 )           |
| <b>Total</b>                  | <b>\$ 25,316</b>     | <b>\$ 1,609</b>      |

**Goodwill and Other Intangible Assets**

The Company periodically reviews the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist. Goodwill and certain intangible assets are assessed annually, or when certain triggering events occur, for impairment using fair value measurement techniques. These events could include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. Specifically, goodwill impairment is

determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company uses level 3 inputs and a discounted cash flow methodology to estimate the fair value of a reporting unit. A discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about future cash flows, growth rates, and discount rates. The assumptions about future cash flows and growth rates are based on the Company's budget and long-term plans. Discount rate assumptions are based on an assessment of the risk inherent in the respective reporting units. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The Company's evaluation of goodwill completed during the year ended December 31, 2011 resulted in impairment charges of \$10,435,170 pertaining to their three acquisitions during the year.

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As of December 31, 2011, amortizable intangible assets consist of customer contracts, customer relationships, trade name, acquired technology, and non compete agreements. These intangibles are being amortized on a straight line basis over their estimated useful lives, one to five years. The Company recognized \$1,325,134 of impairment of intangible assets pertaining to their three acquisitions during the year. For the year ended December 31, 2011, the Company recorded amortization of our intangible assets of \$724,375.

During the year ended December 31, 2011, the Company acquired U.S. Patent Number 6,788,769 from eMediacy, Inc. for cash and 14,286 shares of common stock, and incurred costs to prosecute other patent applications. The Company capitalized \$85,000 during 2011, and is amortizing the costs on a straight-line basis over an estimated useful life of twenty years from date of original issuance.

### Impairment of Long-Lived Assets

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

### Derivative Financial Instruments

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

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

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

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

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



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### Revenue Recognition

The Company's "C4" Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution, as is the newly acquired Txtstation Control Center platform. The Company generates revenue from licensing its software to clients in its software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services. The Company recognizes license fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. The Company recognizes revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. The Company considers authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting. As for the newly acquired Mobivity and Boomtext platforms, which are both hosted solutions, revenue is principally derived from subscription fees from customers. The subscription fee is billed on a month to month basis with no contractual term and is collected by credit card for Mobivity and collected by cash and credit card for Boomtext. Revenue is recognized at the time that the services are rendered and the selling price is fixed with a set range of plans. Cash received in advance of the performance of services is recorded as deferred revenue. At December 31, 2011 and 2010, deferred revenues totaled \$309,063 and \$215,430, respectively.

### Stock-based Compensation

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

The Company accounts for equity instruments, including restricted stock or stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. Restricted stock issued to non-employees is accounted for at its estimated fair value as it vests.

### Settlement Payable

The company has recorded amounts pertaining to payments made prior to the acquisitions of Boomtext as well as amounts due to it from the sellers of Boomtext in accounts that are included in Other Assets and Settlement Payable. The amount recorded as a receivable from the sellers of Boomtext totaled \$148,930 and the amount due to these sellers totaled \$125,846 at December 31, 2011.

### Income Taxes

In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical operating results and the

uncertainty of the economic conditions, the Company has recorded a full valuation allowance against its deferred tax assets at December 31, 2011 and 2010 in each jurisdiction where it cannot conclude that it is more likely than not that those assets will be realized.

#### Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive income (loss) in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the years ended December 31, 2011 and 2010, the comprehensive loss was equal to the net loss.

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### Net Loss Per Common Share

Net loss per share is presented as both basic and diluted net loss per share. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. During the years ended December 31, 2011 and 2010, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive. These outstanding securities consist of 2,515,000 and 1,808,750 outstanding options, respectively and 688,669 and 0 outstanding warrants, respectively. In addition, see potential issuances associated with warrants and convertible debt in Notes 5 and 6.

### Reclassifications

Certain amounts from prior periods have been reclassified to conform to the current period presentation. The reclassifications had no effect on previously reported net loss or cash flows.

### Recent Accounting Pronouncements

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

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This update clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This update is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for the Company is January 1, 2012.

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

### 3. Acquisitions

#### Txtstation Acquisition

On April 1, 2011, the Company acquired substantially all of the assets of the Txtstation interactive mobile marketing platform and services business from Adspaq Limited ("Adspaq"). The purchase price for the acquisition was 2,125,000 shares of the Company's common stock, \$26,000 in cash at closing and \$250,000 of scheduled cash payments. The \$250,000 of scheduled cash payments is due as follows: \$25,000 payable on the 60th day following closing and the balance is payable in \$25,000 installments at the end of each of the next nine 30-day periods thereafter. As of December 31, 2011, remaining scheduled cash payments are \$87,500. The Company assumed none of Adspaq's liabilities in the transaction, except for the performance obligation of unearned revenue. For a period of one year following the closing of the transaction, half of the shares of common stock issued to Adspaq will be held in escrow as security for Adspaq's obligations under the agreement.



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In connection with the transaction, the Company also issued 300,000 shares of its common stock to the controlling stockholder of Adsparg in consideration of certain indemnification obligations and other agreements. The value of these shares were included in the purchase price. For one year following the closing of the transaction, the shareholder has agreed not to, directly or indirectly, transfer, donate, sell, assign, pledge, hypothecate, grant a security interest in or otherwise dispose or attempt to dispose of all or any portion of shares issued to it (or any interest therein).

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

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

Actual results of operations of Txtstation are included in the Company's consolidated financial statements from the date of acquisition. The allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

|  |             |
|--|-------------|
| Current assets                         | \$ 10,184   |
| Equipment                              | 31,230      |
| Customer contracts                     | 1,026,000   |
| Trade name                             | 36,000      |
| Technology / IP                        | 182,000     |
| Non-compete                            | 1,000       |
| Goodwill                               | 6,373,730   |
| Assumed liabilities - deferred revenue | (20,000 )   |
| Total purchase price                   | \$7,640,144 |

The purchase price consists of the following:

|  |             |
|--|-------------|
| Cash                                     | \$26,184    |
| Present value of scheduled cash payments | 241,960     |
| Common stock                             | 7,372,000   |
| Total purchase price                     | \$7,640,144 |

The \$242,000 obligation recorded at closing, represented the present value of the \$250,000 payments over the subsequent periods. The Company used a discount rate of 6.25% in calculating the net present value of the scheduled cash payments. The discount rate was based on the Company's estimated cost of capital. Under the effective interest method, the Company accretes the scheduled cash payment liability to the stated amount payable of \$250,000. Accretion of the scheduled cash payment obligation totaled \$7,254 for the year ended December 31, 2011. Accretion of the cash payment obligation was charged to interest expense in accordance with FASB ASC 480.

#### Mobivity Acquisition

On April 1, 2011, we acquired the Mobivity interactive mobile marketing platform and services business from Mobivity, LLC and Mobile Visions, Inc.



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The purchase price for the acquisition was 1,000,000 shares of the Company's common stock, \$65,000 in cash paid at closing and a secured subordinated promissory note of CommerceTel, Inc. in the principal amount of \$606,000. The promissory note earns interest at 6.25% per annum; is payable in six quarterly installments of \$105,526 (inclusive of interest) starting May 1, 2011; matures on August 1, 2012; is secured by the acquired assets of the Mobivity business; and is subordinated to the Company's obligations under its outstanding 10% Senior Secured Convertible Bridge Notes due February 2, 2012 and May 2, 2012 (see Note 6). Mobivity, LLC was granted a security interest in the acquired assets, subordinated only to the Company's senior debt (Bridge Loan), and a majority of the Bridge Lenders consented to the junior security interest. There were no liabilities assumed in the acquisition.

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

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

Actual results of operations of Mobivity are included in the Company's consolidated financial statements from the date of acquisition. The allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

|                        |             |
|------------------------|-------------|
| Customer relationships | \$814,000   |
| Trade name             | 65,000      |
| Technology / IP        | 217,000     |
| Non-compete            | 5,000       |
| Goodwill               | 2,690,033   |
| Total purchase price   | \$3,791,033 |

The purchase price consists of the following:

|                                   |             |
|-----------------------------------|-------------|
| Cash                              | \$64,969    |
| Subordinated secured note payable | 606,064     |
| Common stock                      | 3,120,000   |
| Total purchase price              | \$3,791,033 |

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## BoomText Acquisition

On August 1, 2011, the Company acquired the assets of the BoomText interactive mobile marketing services business by completed the transactions contemplated under an asset purchase agreement dated June 9, 2011 (the "Agreement") with Digimark, LLC ("Digimark"). In accordance with the terms of the Agreement, as amended, the purchase price for the acquisition consisted of the following components: (i) 519,540 shares of the Company's common stock issued at closing; (ii) \$121,000 in cash paid at closing; (iii) a secured subordinated promissory note of CommerceTel, Inc. in the principal amount of \$175,000. This note earns interest at 6.25% per annum; is payable in full on March 31, 2012; is secured by all of the assets of CommerceTel, Inc. and is subordinated to the Company's obligations under its outstanding 10% Senior Secured Convertible Bridge Notes due February 2, 2012; (iv) an unsecured subordinated promissory note in the principal amount of \$194,658 issued by CommerceTel, Inc. This note does not bear interest; is payable in installments (varying in amount) from August 2011 through October 2012; and is subordinated to the Company's obligations under its outstanding 10% Senior Secured Convertible Bridge Notes due February 2, 2012; (v) an earn-out payment (payable 20 months after closing of the transaction) of a number of shares of common stock of the Company equal to (a) 1.5, multiplied by the Company's net revenue from acquired customers and customer prospects for the twelve-month period beginning six months after the closing date, divided by (b) the average of the volume-weighted average trading prices of the Company's common stock for the 25 trading days immediately preceding the earn-out payment (subject to a collar of \$1.49 and \$2.01 per share). As of December 31, 2011 the dollar value of the earn-out payable is \$2,658,159, which is recorded as a non-current liability on the accompanying consolidated balance sheet. The purchase price also included the assumption of an office lease obligation and certain of Digimark's accounts payable.

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

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

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

Actual results of operations of Boomtext are included in the Company's consolidated financial statements from the date of acquisition. The allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

|                        |             |
|------------------------|-------------|
| Prepaid assets         | \$3,000     |
| Customer relationships | 592,000     |
| Trade name             | 39,000      |
| Technology / IP        | 59,000      |
| Non-compete            | 10,000      |
| Goodwill               | 4,373,477   |
| Total purchase price   | \$5,076,477 |



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The purchase price consists of the following:

|  |             |
|--|-------------|
| Cash                                   | \$ 120,514  |
| Secured subordinated promissory note   | 175,000     |
| Unsecured subordinated promissory note | 182,460     |
| Common stock                           | 826,069     |
| Earn-out payable                       | 3,657,585   |
| Liabilities assumed                    | 114,849     |
| Total purchase price                   | \$5,076,477 |

The \$194,658 unsecured subordinated promissory note does not bear interest; accordingly, the Company recorded \$182,460 as the net present value of the payments due over the subsequent periods. The Company used a discount rate of 6.25% in calculating the net present value of the unsecured promissory note. The discount rate was based on the Company's estimated cost of capital. Under the effective interest method, the Company accretes the debt discount to the face amount of the promissory note. Accretion of the debt discount totaled \$7,254 for the year ended December 31, 2011. Accretion of the debt discount was charged to interest expense in accordance with FASB ASC 480.

#### Estimated Useful Lives of Acquired Intangibles

The estimated useful lives of the acquired intangibles are as follows:

|                        | Useful Lives (Years) |          |          |
|------------------------|----------------------|----------|----------|
|                        | Txtstation           | Mobivity | Boomtext |
| Customer contracts     | 5                    | n/a      | n/a      |
| Customer relationships | n/a                  | 2        | 2        |
| Trade name             | 1                    | 5        | 1        |
| Technology / IP        | 5                    | 5        | 1        |
| Non-compete            | 1.5                  | 2        | 2        |
| Goodwill               | n/a                  | n/a      | n/a      |

#### Acquisition Related Costs

The Company recorded \$223,207 in acquisition-related costs for accounting, legal and other costs in connection with the three acquisitions within the general and administrative expenses in its consolidated statement of operations for the year ended December 31, 2011.

#### Goodwill and Intangible Asset Impairment

The Company evaluated goodwill and intangible assets for impairment at December 31, 2011. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company uses level 3 inputs and a discounted cash flow methodology to estimate the fair value of a reporting unit. A discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about future cash flows, growth rates, and discount rates. The assumptions about future cash flows and growth rates are based on the Company's budget and long-term plans. Discount rate assumptions are based on an assessment of the risk inherent in the respective reporting units. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the



goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The Company's evaluation of goodwill completed during the year ended December 31, 2011 resulted in impairment charges of \$10,435,170 pertaining to their three acquisitions during the year.

As of December 31, 2011, amortizable intangible assets consist of customer contracts, customer relationships, trade name, acquired technology, and non compete agreements. These intangibles are being amortized on a straight line basis over their estimated useful lives, one to five years. The Company recognized \$1,325,134 of impairment of intangible assets pertaining to their three acquisitions during the year. For the year ended December 31, 2011, the Company recorded amortization of our intangible assets of \$724,375.

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## Pro Forma Information

The following summary presents unaudited pro forma consolidated results of operations as if the Txtstation, Mobivity, and Boomtext (the “Acquired Companies”) acquisitions described above had occurred on January 1, 2011 and 2010. The unaudited pro forma consolidated results of operations combines the historical results of operations of the Company and the Acquired Companies for the years ended December 31, 2011 and 2010, and gives effect to certain adjustments, including the reduction in compensation expense related to non-recurring executive salary expense and non-recurring acquisition related costs incurred by the Company, the amortization of acquired intangible assets and interest expense on acquisition related debt.

The unaudited pro forma condensed results of operations has been prepared for comparative purposes only and does not purport to be indicative of the actual operating results that would have been recorded had the acquisitions actually taken place on January 1, 2011 or 2010, and should not be taken as indicative of future consolidated operating results.

|                    | Years ended December 31, |               |
|--------------------|--------------------------|---------------|
|                    | 2011                     | 2010          |
| Pro forma revenue  | \$3,678,963              | \$3,294,422   |
| Pro forma net loss | \$(16,688,474)           | \$(2,476,229) |

## 4. Goodwill and Purchased Intangibles

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

The following table presents details of the Company’s total purchased intangible assets as of December 31, 2011:

|                        | Balance at<br>December 31,<br>2010 | Additions   | Amortization | Impairment     | Balance at<br>December 31,<br>2011 |
|------------------------|------------------------------------|-------------|--------------|----------------|------------------------------------|
| Patents and trademarks | \$-                                | \$127,000   | \$(6,984 )   | \$-            | \$120,016                          |
| Customer contracts     | -                                  | 1,026,000   | (153,900 )   | (769,100 )     | 103,000                            |
| Customer relationships | -                                  | 1,406,000   | (428,584 )   | (480,417 )     | 496,999                            |
| Trade name             | -                                  | 140,000     | (53,000 )    | (16,250 )      | 70,750                             |
| Technology / IP        | -                                  | 458,000     | (84,434 )    | (51,450 )      | 322,116                            |
| Non-compete            | -                                  | 16,000      | (4,458 )     | (7,917 )       | 3,625                              |
|                        | \$-                                | \$3,173,000 | \$(731,360 ) | \$(1,325,134 ) | \$1,116,506                        |

During the year ended December 31, 2011, the Company recorded amortization expense related to purchased intangibles of \$731,360, which is included in Depreciation & amortization in the Consolidated Statement of Operations.

The estimated future amortization expense of purchased intangible assets as of December 31, 2011 is as follows:

| Year ending December 31, | Amount    |
|--------------------------|-----------|
| 2012                     | \$411,669 |
| 2013                     | 345,637   |
| 2014                     | 95,407    |

|            |             |
|------------|-------------|
| 2015       | 95,407      |
| 2016       | 95,407      |
| Thereafter | 72,979      |
|            | \$1,116,506 |

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

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

The Company reassessed the acquired assets at December 31, 2011, resulting in impairment charges of \$10,435,170 and \$1,325,134 for Goodwill and Intangible Assets, respectively.

## 5. Derivative Liabilities

As discussed in Note 6 under Bridge Financing, the Company issued convertible notes payable that provide for the issuance of warrants to purchase its common stock at a future date. The conversion term for the convertible notes is variable based on certain factors. The number of warrants to be issued is based on the future price of the Company's common stock. As of December 31, 2011, the number of warrants to be issued remains indeterminate. Due to the fact that the number of warrants issuable is indeterminate, the equity environment is tainted and all additional warrants and convertible debt are included in the value of the derivative. Pursuant to ASC 815-15 Embedded Derivatives, the fair values of the variable conversion option and warrants / shares to be issued were recorded as derivative liabilities on the issuance date.

As discussed in Note 8 the Company commenced a private placement in late March 2011. The private placement structure consists of a series of identical subscription agreements for the sale of units comprised of shares of the Company's common stock at a price of \$1.50 per share and an equivalent number of warrants at an exercise price of \$2.00. Both the common shares and the warrants contain anti-dilutive, or down round, price protection. The down round protection for the common shares terminates on the earlier of the date on which an effective registration statement is filed with the SEC covering the shares, or the shares become freely tradable pursuant to Rule 144 promulgated under the Securities Act of 1933. The down round protection for the warrant terminates when the warrant expires or is exercised. Pursuant to ASC 815-15 Embedded Derivatives and ASC 815-40 Contracts in Entity's Own Equity, the Company determined that the down round price protection on the common stock represents a derivative liability. Additionally, the Company recorded a derivative liability for the warrants issued in the transactions.

The fair values of the Company's derivative liabilities were estimated at the issuance date and are revalued at each subsequent reporting date, using a Monte Carlo simulation. At December 31, 2011, the Company recorded current derivative liabilities of \$1,573,859. The change in fair value of the derivative liabilities for the year ended December 31, 2011 was a loss of \$1,234,145, and for the year ended December 31, 2010 was a loss of \$14,861, which were reported as other income/(expense) in the consolidated statements of operations.

See note 9, discussing fair value measurements.

### Derivative Value by Instrument

| Type                      | 12/31/2011 | 12/31/2010 |
|---------------------------|------------|------------|
| Convertible Bridge Notes  | 747,423    | 334,478    |
| Common Stock and Warrants | 826,304    | 0          |
|                           | 1,573,859  | 334,478    |

Total

|   |             |
|---|-------------|
| Beginning balance January 1, 2010   | \$-         |
| Increase in derivative value due to issuances of convertible promissory notes | 319,617     |
| Change in fair market value of derivative liabilities                         | 14,861      |
| Beginning balance January 1, 2011   | \$334,478   |
| Increase in derivative value due to issuances of convertible promissory notes | 149,197     |
| Increase in derivative value due to issuances of common stock and warrants    | 1,185,150   |
| Notes converted during the period   | (143,961 )  |
| Change in fair market value of derivative liabilities                         | 48,995      |
| Ending balance December 31, 2011  | \$1,573,859 |

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Key inputs and assumptions:

- Stock prices on all measurement dates were based on the fair market value
- Down round protection is based on the subsequent issuance of common stock at prices less than \$1.50 per share and warrants less than \$2.00 per share
  
- The probability of future financing ranges from 80% to 100%, increasing with the term of the instrument valued
- Computed volatility of 65%
  
- Risk free rates ranging from 0.03% to 1.84%

See note 9, discussing fair value measurements.

6. Bridge Financing, Notes Payable and Accrued Interest

Bridge Financing

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

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

Also in November 2011, the Company issued additional Notes in the aggregate principal amount of \$262,500. These Notes were due February 2, 2012 and contain the same rights and privileges as the previously issued Notes.

As of April 11, 2012, all note holders with maturity dates of February 2, 2012 have extended the maturity through May 2, 2012.

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

stock equal to the product arrived at by multiplying (x) the Principal Amount plus all accrued and unpaid interest divided by the Offering Price and (y) 0.33.

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

WFG Investments, Inc. and Emerging Growth Equities, Ltd., both registered broker dealers, were paid placement agent fees related to the Notes in the amount of \$40,000 and \$13,250, respectively, which were capitalized as deferred financing costs, and are being amortized over the term of the Notes using the effective interest method. The Company recorded \$39,958 of expense for the amortization of the deferred financing costs during the year ended December 31, 2011.

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The following table summarizes information relative to all of the outstanding Notes at December 31, 2011 and 2010:

|  | December 31, |             |
|--|--------------|-------------|
|  | 2011         | 2010        |
| Bridge notes payable                   | \$1,062,500  | \$1,000,000 |
| Less unamortized discounts:            |              |             |
| Variable maturity discount             | (12,031 )    | (1,569 )    |
| Warrant discount                       | (47,739 )    | (267,259 )  |
| Bridge notes payable, net of discounts | \$1,002,730  | \$731,172   |

In accordance with ASC 470-20 Debt with Conversion and Other Options, the Company recorded a discount of \$30,277 for the variable conversion feature and a discount of \$118,920 for the warrants / shares to be issued. The discounts will be amortized to interest expense over the term of the Notes using the effective interest method. The Company recorded \$358,255 of interest expense for the amortization of the note discounts associated with derivative liabilities during the year ended December 31, 2011.

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

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

#### Mobivity Note

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

During the year ended December 31, 2011, the Company made payments totaling \$316,579 on the promissory note, and the outstanding principal amount of the note is \$310,135 at December 31, 2011.

#### Digimark, LLC Notes

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

As partial consideration for the acquisition of Boomtext, the Company also issued an unsecured subordinated promissory note in the principal amount of \$195,000. The promissory note does not bear interest; is payable in installments (varying in amount) from August 2011 through October 2012; and is subordinated to the Company's obligations under its Notes discussed above. The \$195,000 unsecured subordinated promissory note does not bear interest; accordingly, the Company recorded the promissory note at the present value of the \$195,000 payments over



the subsequent periods. The Company used a discount rate of 6.25% in calculating the net present value of the unsecured promissory note. The discount rate was based on the Company's estimated cost of capital. Under the effective interest method, the Company accretes the debt discount to the face amount of the promissory note. Accretion of the debt discount totaled \$7,254 for the year ended December 31, 2011. Accretion of the debt discount was charged to interest expense in accordance with FASB ASC 480.

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## Summary of Notes Payable and Accrued Interest

The following table summarizes the Company's notes payable and accrued interest as of December 31, 2011 and 2010:

|   | Notes Payable |            | Accrued Interest |            |
|---|---------------|------------|------------------|------------|
|   | 12/31/2011    | 12/31/2010 | 12/31/2011       | 12/31/2010 |
| Bridge notes, net, as discussed above   | \$1,002,730   | \$731,172  | \$95,823         | \$15,792   |
| Mobivity note, as discussed above   | 310,135       | -          | -                | -          |
| Unsecured (as amended) note payable due to our Company's former Chief Executive Officer, interest accrues at the rate of 9% compounded annually, all amounts due and payable December 31, 2008, See Note 12 | 20,000        | 20,000     | 10,871           | 8,223      |
| Note payable due to a trust, interest accrues at the rate of 10% per annum, all amounts due and payable December 31, 2006. The Company is negotiating the terms of this note.                               | 51,984        | 51,984     | 19,084           | 13,886     |
| Digimark, LLC secured subordinated promissory note, as discussed above  | 175,000       | -          | 4,648            | -          |
| Digimark, LLC subordinated promissory note, net, as discussed above   | 179,151       | -          | -                | -          |
|   | \$1,739,000   | \$803,156  | \$130,426        | \$37,901   |

Interest expense, including amortization of note discounts, totaled \$497,003 and \$69,723 for the years ended December 31, 2011 and 2010, respectively.

## 7. Stockholders' Equity (Deficit)

## Common Stock

In 2010, the Company issued 2,732,028 shares in satisfaction of: (i) accounts payable totaling \$893,469; (ii) notes payable and accrued interest totaling \$385,592; and (iii) accrued compensation totaling \$224,537. As of December 31, 2010, the Company has 17,700,000 common shares outstanding, of which 6,000,000 shares are free trading and 11,700,000 shares are restricted pursuant Rule 144 promulgated under the Securities Act of 1933. This restriction is expected to be lifted in November 2011 which will result in a significant number of additional shares becoming freely tradable.

The Company commenced a private placement in March 2011 that continued through September 2011. The private placement structure consisted of a series of identical subscription agreements for the sale of units comprised of shares of the Company's common stock at a price of \$1.50 per share and an equivalent number of warrants at an exercise price of \$2.00. During 2011, the Company issued 688,669 shares of common stock at \$1.50 per share for cash and issued four-year warrants to purchase 688,669 shares of common stock at \$2.00 per share to several accredited investors raising gross proceeds of \$1,033,000. Both the common shares and the warrants contain anti-dilutive, or down round, price protection. The down round protection for the common shares terminates on the earlier of the date on which an effective registration statement is filed with the SEC covering the shares, or the shares become freely tradable pursuant to Rule 144 promulgated under the Securities Act of 1933. The down round protection was extended to August 15, 2012. The down round protection for the warrant terminates when the warrant expires or is exercised. The Company determined that the down round price protection on the common stock represents a derivative. See Note 5 for further discussion. Additionally, the Company recorded a derivative liability for the

warrant as discussed in Note 5.

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The Company also issued 3,944,540 shares for the acquisition of: (i) Txtstation which was issued 2,425,000 shares of common stock at a price of \$3.04 per share with a common stock purchase price of \$7,372,000; (ii) Mobivity which was issued 1,000,000 shares of common stock at a price of \$3.12 per share with a common stock purchase price of \$3,120,000; and (iii) Boomtext was issued 259,770 shares of common stock (with a six month lock-up period) at a price of \$1.63 per share with a common stock purchase price of \$423,425 and an additional 259,770 shares of common stock (with a eighteen month lock-up period) at a price of \$1.55 per share with a common stock purchase price of \$402,644, which represents a total common stock acquisition price of \$11,318,069. The shares were recorded at a price per share based on the fair market value on the date of acquisition. See Note 3 for a more detailed discussion regarding the total acquisition costs for the previously mentioned acquisitions.

In March 2011 the Company acquired US Patent number 6788769 B1 for \$85,000, which consisted of a \$35,000 cash payment and the issuance of 14,286 shares of common stock at a price of \$3.50 per share with a common stock purchase price of \$50,000. The shares were valued at the fair market value on the date of grant.

In 2011, the Company issued 253,298 common stock shares for various services which include: (i) an issuance of 13,298 shares at a price of \$1.88 totaling \$25,000 for a registered broker-dealer to act as the Company's placement agent with respect of finding investors; (ii) a second issuance of 200,000 shares at a price of \$1.75 totaling \$350,000 for investor relations consulting services; and (iii) a final issuance of 40,000 shares at a price of \$1.35 totaling \$54,000 for additional investor relations consulting services. The shares were valued at the fair market value on the date of grant.

In October and November of 2011, five Bridge Note, holders of the 10% Senior Secured Convertible Bridge Notes due November 2, 2011 agreed to convert their entire principal amount, or \$210,000, plus all accrued and unpaid interest, of \$20,271, into units each of which consist of one share of common stock of the Company and a four year warrant to purchase one share of common stock at \$2.00 per share. The conversion took place at a price of \$1.50 per unit. Accordingly, the Company issued an aggregate of 153,515 shares of common stock and 153,515 warrants. The conversion occurred within the terms of the convertible notes and no gain or loss was recorded.

## Stock-based Compensation

### CTel Canada Plan

Certain employees and directors and consultants of the Company (the "Optionees") received stock options exercisable for the common stock of (and issued by) our former parent company, CTel Canada. Effective with the Merger, all of the unvested options became fully vested and the related stock-based compensation was recognized in 2010. The Company recorded stock-based compensation of \$114,775 in operating expenses for the year end December 31, 2010, related to stock option grants made to the Optionees.

For purposes of accounting for stock-based compensation, the fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing formula, and the expense is recognized on a straight-line basis over the service period or the amount vested, whichever is greater. The Company granted one option during the year ended December 31, 2010 and used the following valuation assumptions to determine the fair value of the option at the grant date: expected volatility of 111%; risk free interest rate of 0.78%; forfeiture rate of 24.6%; expected dividend rate of 0.0%; and expected term of three years.

### 2010 Incentive Stock Option Plan

On December 24, 2010, the Company adopted the 2010 Incentive Stock Option Plan ("the 2010 Plan"), subject to shareholder approval within one year. Shareholder approval was not obtained within one year, therefore incentive

stock options granted under the 2010 Plan converted to non-qualified stock options. The 2010 Plan permits the Company to grant up to 3,124,000 shares of common stock and options to purchase shares of common stock. The 2010 Plan is designed to retain directors, executives and selected employees and consultants and reward them for making major contributions to the success of the Company. These objectives are accomplished by making long-term incentive awards under the 2010 Plan thereby providing participants with a proprietary interest in the growth and performance of the Company.

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

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A summary of option activity under the 2010 Plan as of December 31, 2011 and changes during the year then ended is presented below:

|   | Number      | Weighted -<br>Average<br>Exercise<br>Price | Weighted -<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) |
|---|-------------|--|--|
|   | Outstanding | Per Share                                  |  |
| Outstanding at January 1, 2011                      | 1,015,000   | \$0.32                                     | 4.73   |
| Granted   | 645,000     | 1.50                                       | 7.35   |
| Exercised   | -           | -  | -  |
| Canceled/forfeited/expired                          | (50,000 )   | 1.60                                       | 4.04   |
| Outstanding at December 31, 2011                    | 1,610,000   | \$0.64                                     | 5.12   |
| Options vested and exercisable at December 31, 2011 | 253,750     | \$0.32                                     | 3.98   |

## Expense Information

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees, directors and non-employees based upon estimated fair values. The Company recorded stock-based compensation in operating expenses for non-employees of \$416,012 for the year ended December 31, 2011. The Company recorded stock-based compensation in operating expenses for employees of \$792 for the year ended December 31, 2010.

## Valuation Assumptions

The Company uses the Black-Scholes option pricing model in determining its option expense. The weighted-average estimated fair value of employee stock options and non-employee stock options granted during the year ended December 31, 2011 was \$0.94 per share. There were 645,000 options granted during the year ended December 31, 2011. The Company periodically revalues non-employee stock options as they vest. The ranges of assumptions used during the year ended December 31, 2011 are as follows:

|                         | December 31,<br>2011<br>Employee<br>Options |
|-------------------------|---|
| Expected volatility     | 60% to 65%                                  |
| Risk-free interest rate | 0.62% to<br>2.31%                           |
| Forfeiture rate         | 0.0 %                                       |
| Expected dividend rate  | 0.0 %                                       |
| Expected life(yrs)      | 3.00 to 6.00                                |

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

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

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

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

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## Warrants

During the year ended December 31, 2010 and 2011, the Company issued warrants totaling 793,750 and 205,000, respectively to non-employee consultants that include graded vesting terms. As of December 31, 2011, 349,997 warrants were vested pursuant to these agreements. These warrants were valued using a Black Scholes Model and the greater of the amount vested or the amount recorded over the service period on a straight line basis was recorded in Stock Based Compensation.

## Expense Information

The Company measures and recognizes compensation expense for all stock-based payment awards made to non-employees based upon estimated fair values. The Company recorded stock-based compensation in operating expenses for non-employees of \$560,244 for the year ended December 31, 2011. The Company recorded stock-based compensation in operating expenses for non-employees of \$41,218, for the year ended December 31, 2010.

## Valuation Assumptions

The Company uses the Black-Scholes option pricing model in determining its warrants expense issued to non-employees. There were 205,000 warrants granted during the year ended December 31, 2011. The Company periodically revalues these warrants as they vest. The ranges of assumptions used during the year ended December 31, 2011 are as follows:

|                         | Warrants       |
|-------------------------|----------------|
| Expected volatility     | 60% to 61.6%   |
| Risk-free interest rate | 0.96% to 2.42% |
| Forfeiture rate         | 0.0 %          |
| Expected dividend rate  | 0.0 %          |
| Expected life(yrs)      | 3.00 to 6.00   |

A summary of warrant activity during the year ended December 31, 2011 and changes during the year then ended is presented below:

|  | Number      | Weighted -<br>Average<br>Exercise<br>Price | Weighted -<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) |
|--|-------------|--|--|
|  | Outstanding | Per Share                                  |  |
| Outstanding at January 1, 2011                       | 793,750     | \$0.32                                     | 4.73   |
| Granted  | 205,000     | 1.50                                       | 7.35   |
| Exercised  | -           | -  | -  |
| Canceled/forfeited/expired                           | (93,750 )   | 1.60                                       | 4.04   |
| Outstanding at December 31, 2011                     | 905,000     | \$0.64                                     | 5.12   |
| Warrants vested and exercisable at December 31, 2011 | 349,997     | \$0.32                                     | 3.98   |



As of December 31, 2011, total compensation cost related to non-vested employee stock options not yet recognized was \$1,290,022, which is expected to be recognized over the next 1.44 years on a weighted-average basis.

As discussed in Note 6, the Company is obligated to issue warrants or shares pursuant to its Bridge Financing. The number of warrants / shares issuable pursuant to the agreements is not known as of December 31, 2011.

During the year ended December 31, 2011, the Company issued warrants for the purchase of 688,669 shares of common stock at \$2.00 per share in connection with its private placement discussed above under Common Stock. The warrants are exercisable for four years from the date of issuance, and contain anti-dilution, or down round, price protection as long as the warrant remains outstanding. In addition, the Company issued warrants for the purchase of 153,515 shares of common stock at \$2.00 per share in connection with the conversion of its outstanding Notes with a principal amount of \$210,000 discussed above in Note 6 under Bridge Financing. The warrants are exercisable for four years from the date of issuance. These warrants are shown below. These warrants are included in the derivative value as of December 31, 2010 and 2011.

|            |                    |         |
|------------|--------------------|---------|
| 12/31/2010 | Balance            | -       |
|            | Warrants issued    | 842,184 |
|            | Warrants exercised | -       |
|            | Warrants expired   | -       |
| 12/31/2011 | Balance            | 842,184 |

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## 8. Income Taxes

The Company has adopted the provisions of FASB ASC Topic 740, Income Taxes ("ASC 740"), formerly FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Further, ASC 740 gives guidance regarding the recognition of a tax position based on a "more likely than not" recognition threshold; that is, evaluating whether the position is more likely than not of being sustained upon examination by the appropriate taxing authorities, based on the technical merits of the position.

The Company's federal filings prior to December 31, 2008 and the Company's California filings prior to December 31, 2007 are no longer subject to examination.

The following table summarizes the activity related to the Company's unrecognized tax benefits.

|  |      |
|--|------|
| Balance at December 31, 2010                                   | None |
| Increases related to current year tax positions                | None |
| Expiration of statute of limitation of the assessment of taxes | None |
| Other  | None |
| Balance at December 31, 2011                                   | None |

For the years ended December 31, 2011 and 2010 the provisions for income taxes were as follows:

|                   | 2011     | 2010     |
|-------------------|----------|----------|
| Federal - current | \$ -     | \$ -     |
| State - current   | 3,000    | 2,000    |
| Total             | \$ 3,000 | \$ 2,000 |

Under ASC 740, deferred income tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of our net deferred tax assets and liabilities as of December 30, 2011 and 2010 are as follows:

|   | 2011         | 2010         |
|---|--------------|--------------|
| Deferred tax assets                             |              |              |
| Net operating loss carryforwards                | \$ 3,814,000 | \$ 2,859,000 |
| Deferred revenue                                | 16,000       | 48,000       |
| Stock-based compensation                        | 613,000      | 62,000       |
| Accrued compensation                            | 48,000       | 47,000       |
| Derivative liability                            | 600,000      | 30,000       |
| Depreciation and amortization                   | 4,691,000    | 3,000        |
| Other   | 9,000        | 28,000       |
| Total deferred tax assets                       | 9,791,000    | 3,077,000    |
| Valuation allowance for net deferred tax assets | (9,791,000)  | (3,077,000)  |
| Total deferred tax assets                       | \$ -         | \$ -         |



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The Company has provided a valuation allowance against deferred tax assets recorded as of December 31, 2011 and 2010 due to uncertainties regarding the realization of such assets.

The net change in the total valuation allowance for the year ended December 31, 2011 was an increase of approximately \$6,714,000. The net change in the total valuation allowance for the year ended December 31, 2010 was an increase of approximately \$398,000. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers projected future taxable income and planning strategies in making this assessment. Based on the level of historical operating results and projections for the taxable income for the future, the Company has determined that it is more likely than not that the deferred tax assets will not be realized. Accordingly, the Company has recorded a valuation allowance to reduce deferred tax assets to zero. There can be no assurance that the Company will ever be able to realize the benefit of some or all of the federal and state loss carryforwards, either due to ongoing operating losses or due to ownership changes, which limit the usefulness of the loss carryforwards.

As of December 31, 2011, the Company has available net operating loss carryforwards of approximately \$9,600,000 for federal income tax purposes, which will start to expire in 2026. The net operating loss carryforwards for state purposes are approximately \$9,600,000 and will start to expire in 2016.

The difference between the provision for income taxes and income taxes computed using the U.S. federal income tax rate for the years ended December 31, 2011 and 2010 was as follows:

|                                  | 2011           | 2010         |
|----------------------------------|----------------|--------------|
| Computed "expected" tax expense  | \$ (5,885,000) | \$ (418,000) |
| Computed "expected" tax expense  | (1,006,000)    | (57,000)     |
| Cancellation of shares in Merger | -              | 74,000       |
| Other                            | 180,000        | 5,000)       |
| Change in valuation allowance    | 6,714,000      | 398,000      |
| Total                            | \$ 3,000       | \$ 2,000     |

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

## 9. Fair Value Measurements

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



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At December 31, 2011, the Company recorded a liability related to the variable maturity feature and the future issuance of warrants / shares in connection with its Bridge Notes (See Note 5), and the common stock and warrants issued in the current year (See Notes 4 and 6) at the aggregate fair market value of \$1,573,859 utilizing unobservable inputs. The change in fair market value of these liabilities is included in other income (expense) in the consolidated statements of operations. The assumptions used in the Monte-Carlo simulation used to value the derivative liabilities involve expected volatility in the Company's common stock, estimated probabilities related to the occurrence of a future financing, and interest rates. As all the assumptions employed to measure this liability are based on management's judgment using internal and external data, this fair value determination is classified in Level 3 of the valuation hierarchy.

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

10. Gain on Extinguishment of Debt

During the year ended December 31, 2010, the Company negotiated settlement agreements with regards to previously recorded liabilities of \$271,000. The Company paid \$72,000 to settle these liabilities, and recorded a gain on extinguishment of debt of \$199,000 in the consolidated statements of operations.

11. Commitments and Contingencies

Earn Out Contingency

The Company has an earn out commitment associated with the acquisition of Boomtext from Digimark, LLC. An earn-out payment (payable 20 months after closing of the transaction) of a number of shares of common stock of the Company equal to (a) 1.5, multiplied by the Company's net revenue from acquired customers and customer prospects for the twelve-month period beginning six months after the closing date, divided by (b) the average of the volume-weighted average trading prices of the Company's common stock for the 25 trading days immediately preceding the earn-out payment (subject to a collar of \$1.49 and \$2.01 per share). As of December 31, 2011 the estimated dollar value of the earn-out payable is \$2,658,159, which is recorded as a non-current liability on the accompanying consolidated balance sheet.

Litigation

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

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## Operating Lease

The Company has a lease agreement for its office facilities in Chandler Arizona through December 2015, acquired through the acquisition of the assets of Digimark, LLC on August 1, 2011. Monthly rents were \$5,700 at December 31, 2011 and increase over time to \$7,600 in January 2015. Deferred rent at December 31, 2011 was \$2,928. Future lease amounts due under the lease agreement (as stated on December 31, 2011 and not including common area maintenance charges) total; \$82,200 - 2012; \$85,200 – 2013; \$88,200 – 2014; and \$91,200 – 2015.

On February 28, 2012, the Company signed an amendment to its existing lease for the facility in Chandler, Arizona to expand by adding 2,519 square feet in an adjacent suite. The amended lease agreement remains in force through December 2015. Future lease amounts now due under the amended lease agreement (as stated on April 1, 2011 and not including common area maintenance charges) total; \$118,200 - 2012; \$138,678 – 2013; \$143,492 – 2014; and \$148,278 – 2015.

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

## Minimum Lease Payments

|      |    |         |
|------|----|---------|
| 2012 | \$ | 201,400 |
| 2013 |    | 223,878 |
| 2014 |    | 231,692 |
| 2015 |    | 239,478 |
| 2016 |    | -       |
|      | \$ | 896,448 |

## Lease Exit Obligation

The Company had a lease agreement for its office facilities in San Diego, California through June 2012. Upon signing a lease agreement for the facility in Chandler, the Company determined it no longer needed the San Diego facility. The property was vacated in November 2011 and returned to the owner. The Company incurred \$77,589 in Lease Exit Obligation for the period December 2011 through June, 2012, made up of, \$38,088 in remaining rent obligation, \$32,550 in remaining deferred rent, \$5,453 in estimated common area maintenance charges, and \$1,498 in property tax obligation. The Company expects no further charges in relation to this lease exit obligation, aside from actual common area maintenance charges reconciled against the estimate.

Rent expense for both the San Diego, California, and Chandler, Arizona facilities (including related common area maintenance charges and lease abandonment charges) was \$144,703 for the year ended December 31, 2011, and \$72,986 (for the San Diego location only) for the year ended December 31, 2010.

## Other

At December 31, 2010, the Company was delinquent with respect to the payment of wages earned by current employees due to an insufficient balance of cash on hand at the time the payrolls were due to be paid to the employees. Ahead of the Merger, employees agreed to convert the majority of the delinquent payments to equity in CommerceTel, Inc. The employees have agreed to continue their employment in the expectation of eventual payment of the remaining amounts due. It is the Company's full intention to satisfy or reach a settlement with all past due balances outstanding, which total approximately \$71,000 at December 31, 2011.

The Company has an employee savings plan (the “Plan”) pursuant to Section 401(k) of the Internal Revenue Code (the “Code”), covering all of its employees. Participants in the Plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code. The Company may make contributions at the discretion of its Board of Directors. During the years ended December 31, 2011 and 2010, the Company made no contributions to the Plan.

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13. Related Party Transactions

During the year ended December 31, 2010 a consulting agreement was entered into with an existing shareholder of CTel Canada, the former parent of CommerceTel, Inc., totaling payments of \$80,000 and concluded in September 2010. The Company and stockholder agreed in October 2010 that the amount would be settled with 200,000 shares of CommerceTel, Inc., which were subsequently exchanged for 145,359 shares of CommerceTel Corporation as part of the Merger.

During the year ended December 31, 2010 a consulting agreement was entered into with an existing shareholder of CTel Canada, the former parent of CommerceTel, Inc., totaling payments of \$15,000 and concluded on September 30, 2010. The consulting agreement was paid in full.

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

Hidden River Ventures I, LLC is an existing shareholder in CommerceTel Corporation as a result of converting \$229,000 of payables in exchange for 415,937 shares of CommerceTel Corporation common stock. On October 26, 2010, the Company entered into a consulting agreement with a related company under common control, Hidden River, LLC, pursuant to which Hidden River, LLC would lead the Company's acquisition strategy. The consulting agreement calls for monthly payments of \$10,000, along with periodic bonus payments associated with the success of the acquisition strategy, as well as options to purchase 700,000 shares granted on December 24, 2010 priced at \$.32 per share. Of the options granted, 349,997 options were vested as of December 24, 2011. Hidden River was paid \$140,000 in 2011.

During the year ended December 31, 2011, the Managing Director of Hidden River, LLC, became an investor in the company's private placement with an investment of \$25,000.

During the year ended December 31, 2011, a consulting agreement was entered into with Premier Capital Partners for investor relations services in exchange for 200,000 common shares. Subsequently the Managing Director for Premier Capital Partners became an investor in the company's private placement with an investment of \$225,000.

During the year ended December 31, 2011, the company entered into an employment agreement with the primary owner and shareholder of Digimark LLC, holder of 519,540 common shares, to serve as Executive Vice President of Business Development. He was paid \$40,000 in 2011.

14. Subsequent Events

In January, 2012, we issued to a number of accredited investors an additional series of 10% Senior Secured Convertible Bridge Notes in the aggregate principal amount of \$520,000.

In February, 2012, Timothy Schatz was appointed Chief Financial Officer by the Board of Directors.

In February, 2012, we signed an amendment to our operating lease for the facility on 58 West Buffalo St, Chandler, Arizona expanding the amount of leased space for the remaining duration of the lease.

In March, 2012, we issued to a number of accredited investors an additional series of 10% Senior Secured Convertible Bridge Notes in the aggregate principal amount of \$65,100.

In March, 2012, one holder of a 10% Senior Secured Convertible Bridge Note was repaid a principal amount of \$65,000.

In April, 2012, we issued to a number of accredited investors an additional series of 10% Senior Secured Convertible Bridge Notes in the aggregate principal amount of \$125,000.

In March and April 2012, all holders of 10% Senior Secured Convertible Bridge Notes with a maturity date of February 2, 2012 extended the maturity to May 2, 2012. These notes are secured by the assets of the Company.

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15. Restatement

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

Under ASC 820 Fair Value Measurements & Disclosures, a quoted stock price in an active market is considered primary (Type I) indicator of fair value of restricted stock issued in consideration for the acquisitions completed in 2011. The Company believed that the infrequent and low volume of initial trading of its common stock did not constitute an active market. Alternatively, throughout the year the company conducted a private placement in which units comprised of shares of restricted common stock and attached warrants were sold at \$1.50 per share. This price per share was bifurcated for the value of the common stock, the warrant, an embedded derivative related to down round protection on common stock, and an embedded derivative related to down round protection on the warrant. The price per common share that was determined by this valuation ranged between \$1.00 and \$1.10 in the first three quarters of the year 2011. The use of this method resulted in understated goodwill for each of the three acquisitions, understated asset value for certain intangible assets, understated stock based compensation expense, an understatement of certain derivative liabilities and an understatement of the related expense related to the Company's derivative liability, as reflected in its financial statements for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011.

The cumulative effect of this change through September 30, 2011 is \$8,346,836 increase in goodwill and intangible assets, \$739,606 in current liabilities, \$993,119 in non-current liabilities, \$8,177,272 in additional paid-in capital, and \$1,913,161 decrease in the Company's net income, however had no effect on the Company's reported cash flows. Unaudited Tables detailing the effect of the error on the Company's previously filed financial statements for the quarters ended March 31, June 30, and September 30, 2011 are included below.

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## NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Balance Sheet  
(Unaudited)

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

- (a) To reflect change due to the change in fair market value of restricted stock in underlying calculations
- (b) To reflect reclassification of common stock liabilities from Q1 sale of private placement shares

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## NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Statement of Operations  
(Unaudited)

|  | As Filed      | Three months ended March 31, 2011 |     | Restated        |
|--|---------------|-----------------------------------|-----|-----------------|
|  |               | Adjustments                       |     |                 |
| <b>Revenues</b>  |               |                                   |     |                 |
| Revenues   | \$ 140,638    | \$ -                              |     | \$ 140,638      |
| Cost of revenues   | 79,837        | -                                 |     | 79,837          |
| Gross Margin   | 60,801        | -                                 |     | 60,801          |
| <b>Operating Expenses</b>  |               |                                   |     |                 |
| Sales & marketing expense  | 57,851        | 6,074                             | (a) | 63,925          |
| Engineering, research, & development expense                                   | 128,571       | 17,920                            | (a) | 146,491         |
| General & administrative   | 545,039       | 81,212                            | (a) | 626,251         |
| Total Operating Expenses   | 731,461       | 105,206                           |     | 836,667         |
| Loss From Operations   | (670,660 )    | (105,206 )                        |     | (775,866 )      |
| <b>Other Income/(Expense)</b>  |               |                                   |     |                 |
| Interest income  | 158           | -                                 |     | 158             |
| Interest expense   | (105,408 )    | -                                 |     | (105,408 )      |
| Change in fair market value of derivative liabilities                          | 47,693        | (478,095 )                        | (a) | (430,402 )      |
| Gain on debt extinguishment  | -             | -                                 |     | -               |
| Total Other Income/(Expense)   | (57,557 )     | (478,095 )                        |     | (535,652 )      |
| Net Loss   | \$ (728,217 ) | \$ (583,301 )                     |     | \$ (1,311,518 ) |
| Net Loss Per Share - Basic and Diluted   | \$ (0.04 )    | \$ (0.03 )                        | (a) | \$ (0.07 )      |
| <b>Weighted average number of shares during the period - basic and diluted</b> |               |                                   |     |                 |
|  | 17,711,048    | 17,711,048                        |     | 17,711,048      |

(a) To reflect change due to the change in fair market value of restricted stock in underlying calculations

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## NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Balance Sheet  
(Unaudited)

|  | As Filed     | June 30, 2011<br>Adjustments |     | Restated      |
|--|--------------|------------------------------|-----|---------------|
| <b>Current Assets</b>  |              |                              |     |               |
| Cash   | \$ 23,195    | \$ -                         |     | \$ 23,195     |
| Accounts Receivable  | 154,978      | -                            |     | 154,978       |
| Other Current Assets   | 43,852       | -                            |     | 43,852        |
| Total Current Assets   | 222,025      | -                            |     | 222,025       |
| Equipment, Net   | 31,865       | -                            |     | 31,865        |
| Goodwill   | 1,996,763    | 7,067,000                    | (a) | 9,063,763     |
| Intangible Assets, Net   | 2,319,240    | 32,143                       | (a) | 2,351,383     |
| Other Assets   | 67,750       | -                            |     | 67,750        |
| TOTAL ASSETS   | \$ 4,637,643 | \$ 7,099,143                 |     | \$ 11,736,786 |
| <b>Current Liabilities</b>   |              |                              |     |               |
| Accounts Payable   | \$ 304,088   | \$ -                         |     | \$ 304,088    |
| Accrued Interest   | 91,628       | -                            |     | 91,628        |
| Accrued and Deferred Personnel<br>Compensation   | 127,802      | -                            |     | 127,802       |
| Deferred Revenue - related party   | 200,000      | -                            |     | 200,000       |
| Deferred Revenue and Customer<br>Deposits  | 143,639      | -                            |     | 143,639       |
| Notes Payable, net of discount   | 580,895      | -                            |     | 580,895       |
| Convertible notes payable, net of<br>discount  | 867,111      | (2,944 )                     | (a) | 864,167       |
| Cash payment obligation, net of<br>discount  | 219,424      | -                            |     | 219,424       |
| Derivative Liabilities   | 329,479      | 593,804                      | (a) | 923,283       |
| Other Current Liabilities  | 98,488       | -                            |     | 98,488        |
| Total Current Liabilities  | 2,962,554    | 590,860                      |     | 3,553,414     |
| <b>Non-Current Liabilities</b>   |              |                              |     |               |
| Notes Payable  | 31,807       | -                            |     | 31,807        |
| Total Non-Current Liabilities  | 31,807       | -                            |     | 31,807        |
| Total Liabilities  | 2,994,361    | 590,860                      |     | 3,585,221     |
| <b>Stockholders' Deficit</b>   |              |                              |     |               |
| Common Stock, \$0.001 par<br>value; 150,000,000<br>shares authorized; 21,509,620<br>and 17,700,000 shares<br>issued and outstanding as of<br>June 30, 2011 and |              |                              |     |               |

|  |                     |                     |     |                      |
|--|---------------------|---------------------|-----|----------------------|
| December 31, 2010,<br>respectively                       | 21,509              | -                   |     | 21,509               |
| Additional Paid-in Capital                               | 10,990,429          | 7,623,382           | (a) | 18,613,811           |
| Accumulated Deficit                                      | (9,368,656 )        | (1,115,100 )        | (a) | (10,483,756)         |
| Total Stockholders' Deficit                              | 1,643,282           | 6,508,283           |     | 8,151,565            |
| <b>TOTAL LIABILITIES &amp;<br/>STOCKHOLDERS' DEFICIT</b> | <b>\$ 4,637,643</b> | <b>\$ 7,099,143</b> |     | <b>\$ 11,736,786</b> |

(a) To reflect change due to the change in fair market value of restricted stock in underlying calculations



Table of ContentsNOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS  
(CONTINUED)Statement of Operations  
(Unaudited)

|   | As Filed      | Three months ended June 30, 2011 |     | Restated      |
|---|---------------|----------------------------------|-----|---------------|
|   |               | Adjustments                      |     |               |
| Revenues  |               |                                  |     |               |
| Revenues  | \$ 553,108    | \$ -                             |     | \$ 553,108    |
| Cost of revenues                                      | 179,051       | -                                |     | 179,051       |
| Gross Margin  | 374,057       | -                                |     | 374,057       |
| Operating Expenses                                    |               |                                  |     |               |
| General & administrative                              | 374,448       | 185,187                          | (a) | 559,635       |
| Sales & marketing expense                             | 200,822       | 15,263                           | (a) | 216,085       |
| Engineering, research, & development expense          | 161,291       | 17,982                           | (a) | 179,273       |
| Depreciation & amortization                           | 124,741       | -                                |     | 124,741       |
| Total Operating Expenses                              | 861,302       | 218,432                          |     | 1,079,734     |
| Loss From Operations                                  | (487,245 )    | (218,432 )                       |     | (705,677 )    |
| Other Income/(Expense)                                |               |                                  |     |               |
| Interest income                                       | 16            | -                                |     | 16            |
| Interest expense                                      | (138,258 )    | -                                |     | (138,258 )    |
| Change in fair market value of derivative liabilities | 159,263       | (313,367 )                       | (a) | (154,104 )    |
| Total Other Income/(Expense)                          | 21,021        | (313,367 )                       |     | (292,346 )    |
| Loss before income taxes                              | (466,224 )    | (531,799 )                       |     | (998,023 )    |
| Income tax benefit/(expense)                          | 38            | -                                |     | 38            |
| Net Loss  | \$ (466,186 ) | \$ (531,799 )                    |     | \$ (997,985 ) |
| Net Loss Per Share - Basic and Diluted                | \$ (0.02 )    | \$ (0.02 )                       | (a) | \$ (0.05 )    |
| Weighted average number of shares                     |               |                                  |     |               |
| during the period - basic and diluted                 | 21,336,579    | 21,336,579                       |     | 21,336,579    |

(a) To reflect change due to the change in fair market value of restricted stock in underlying calculations



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## NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Balance Sheet  
(Unaudited)

|  | As Filed            | September 30, 2011<br>Adjustments |     | Restated             |
|--|---------------------|-----------------------------------|-----|----------------------|
| <b>Current Assets</b>  |                     |                                   |     |                      |
| Cash   | \$ 1,152            | \$ -                              |     | \$ 1,152             |
| Accounts Receivable  | 318,919             | -                                 |     | 318,919              |
| Other Current Assets   | 52,689              | (1,834 )                          |     | 50,855               |
| <b>Total Current Assets</b>  | <b>372,760</b>      | <b>(1,834 )</b>                   |     | <b>370,926</b>       |
| Equipment, Net   | 31,714              | -                                 |     | 31,714               |
| Goodwill   | 5,120,712           | 8,316,527                         | (a) | 13,437,239           |
| Intangible Assets, Net   | 2,835,611           | 32,143                            | (a) | 2,867,754            |
| Other Assets   | 49,650              | 125,846                           | (c) | 175,496              |
| <b>TOTAL ASSETS</b>  | <b>\$ 8,410,447</b> | <b>\$ 8,472,682</b>               |     | <b>\$ 16,883,129</b> |
| <b>Current Liabilities</b>   |                     |                                   |     |                      |
| Accounts Payable   | \$ 581,392          | \$ -                              |     | \$ 581,392           |
| Accrued Interest   | 120,923             | -                                 |     | 120,923              |
| Accrued and Deferred<br>Personnel Compensation   | 160,763             | -                                 |     | 160,763              |
| Deferred Revenue - related<br>party  | 200,000             | -                                 |     | 200,000              |
| Deferred Revenue and<br>Customer Deposits  | 166,277             | -                                 |     | 166,277              |
| Notes Payable, net of discount   | 837,245             | -                                 |     | 837,245              |
| Convertible notes payable, net<br>of discount  | 980,030             | (2,944 )                          | (a) | 977,086              |
| Cash payment obligation, net of<br>discount  | 147,414             | -                                 |     | 147,414              |
| Derivative Liabilities   | 582,443             | 742,550                           | (a) | 1,324,993            |
| Other Current Liabilities  | 143,722             | -                                 |     | 143,722              |
| <b>Total Current Liabilities</b>   | <b>3,920,209</b>    | <b>739,606</b>                    |     | <b>4,659,815</b>     |
| <b>Non-Current Liabilities</b>   |                     |                                   |     |                      |
| Settlement payable   | -                   | 125,846                           | (c) | 125,846              |
| Earn-out payable   | 2,664,466           | 993,119                           | (a) | 3,657,585            |
| <b>Total Non-Current Liabilities</b>   | <b>2,664,466</b>    | <b>1,118,965</b>                  |     | <b>3,783,431</b>     |
| <b>Total Liabilities</b>   | <b>6,584,675</b>    | <b>1,858,571</b>                  |     | <b>8,443,246</b>     |
| <b>Stockholders' Deficit</b>   |                     |                                   |     |                      |
| Common Stock, \$0.001 par<br>value; 150,000,000<br>shares authorized; 22,360,793 and 17,700,000 shares |                     |                                   |     |                      |

|   |                     |                     |     |                      |
|---|---------------------|---------------------|-----|----------------------|
| issued and outstanding as of<br>June 30, 2011 and<br>December 31, 2010,<br>respectively | 22,361              | -                   |     | 22,361               |
| Common Stock Liability  | -                   | 350,000             | (b) | 350,000              |
| Additional Paid-in Capital  | 11,947,645          | 8,177,272           | (a) | 20,124,917           |
| Accumulated Deficit   | (10,144,234 )       | (1,913,161 )        | (a) | (12,057,395)         |
| Total Stockholders' Deficit   | 1,825,772           | 6,614,111           |     | 8,439,883            |
| <b>TOTAL LIABILITIES &amp;<br/>STOCKHOLDERS' DEFICIT</b>                                | <b>\$ 8,410,447</b> | <b>\$ 8,472,682</b> |     | <b>\$ 16,883,129</b> |

(a) To reflect change due to the change in fair market value of restricted stock in underlying calculations

(b) To reflect shares owed at Sept 30, 2011 not issued until Q4 2011.

(c) To reflect net working capital of Boomtext obligation payout

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## NOTE 15 - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

Statement of Operations  
(Unaudited)

|  | As Filed      | Three months ended September 30, 2011 |       | Restated        |
|--|---------------|---------------------------------------|-------|-----------------|
|  |               | Adjustments                           |       |                 |
| <b>Revenues</b>  |               |                                       |       |                 |
| Revenues   | \$ 842,885    | \$ -                                  |       | \$ 842,885      |
| Cost of revenues   | 311,717       | -                                     |       | 311,717         |
| Gross Margin   | 531,168       | -                                     |       | 531,168         |
| <b>Operating Expenses</b>  |               |                                       |       |                 |
| General & administrative   | 523,513       | 437,623                               | (a,b) | 961,136         |
| Sales & marketing expense  | 245,810       | (5,088 )                              | (a)   | 240,722         |
| Engineering, research, & development expense                                   | 156,851       | 17,951                                | (a)   | 174,802         |
| Depreciation & amortization  | 191,783       | -                                     |       | 191,783         |
| Total Operating Expenses   | 1,117,957     | 450,486                               |       | 1,568,443       |
| Loss From Operations   | (586,789 )    | (450,486 )                            |       | (1,037,275 )    |
| <b>Other Income/(Expense)</b>  |               |                                       |       |                 |
| Interest expense   | (133,055 )    | -                                     |       | (133,055 )      |
| Change in fair market value of derivative liabilities                          | (54,134 )     | (347,576 )                            | (a)   | (401,710 )      |
| Total Other Income/(Expense)   | (187,189 )    | (347,576 )                            |       | (534,765 )      |
| Loss before income taxes   | (773,978 )    | (798,062 )                            |       | (1,572,040 )    |
| Income tax benefit/(expense)   | (1,600 )      | -                                     |       | (1,600 )        |
| Net Loss   | \$ (775,578 ) | \$ (798,062 )                         |       | \$ (1,573,640 ) |
| Net Loss Per Share - Basic and Diluted   | \$ (0.04 )    | \$ (0.04 )                            | (a)   | \$ (0.07 )      |
| <b>Weighted average number of shares during the period - basic and diluted</b> |               |                                       |       |                 |
|  | 22,048,802    | 22,048,802                            |       | 22,048,802      |

(a) To reflect change due to the change in fair market value of restricted stock in underlying calculations

(b) To reflect shares owed at Sept 30, 2011 not issued until Q4 2011.



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## SUPPLEMENTAL INFORMATION - Unaudited Pro Forma Condensed Consolidated Statement of Operations

CommerceTel Corporation  
 Pro Forma Condensed Consolidated Statement of Operations  
 Unaudited

|   | Historical       |               |                  |                 |
|---|------------------|---------------|------------------|-----------------|
|   | CommerceTel      | Mobile        | Adjustments      | Pro-Forma       |
|   | Twelve months    | Visions, Inc. | Three months     | Twelve months   |
|   | ended            | Three months  | ended            | ended           |
|   | December 31,     | March 31,     | March 31,        | December 31,    |
|   | 2011             | 2011          | 2011             | 2011            |
| Revenues  |                  |               |                  |                 |
| Revenues  | \$ 2,524,265     | \$ 175,032    | \$ -             | \$ 2,699,297    |
| Cost of revenues                                      | 986,854          | 58,892        | -                | 1,045,746       |
| Gross margin  | 1,537,411        | 116,140       | -                | 1,653,551       |
| Operating expenses                                    |                  |               |                  |                 |
| General & administrative                              | 3,625,799        | 88,322        | -                | 3,714,121       |
| Sales & marketing                                     | 583,284          | -             | -                | 583,284         |
| Engineering, research, & development                  | 347,884          | -             | -                | 347,884         |
| Depreciation & amortization                           | 751,072          | 2,130         | 114,345 (a),(b)  | 867,547         |
| Goodwill Impairment                                   | 10,435,170       | -             | -                | 10,435,170      |
| Intangible asset impairment                           | 1,325,134        | -             | -                | 1,325,134       |
| Total operating expenses                              | 17,068,343       | 90,452        | 114,345          | 17,273,140      |
| Loss from operations                                  | (15,530,932 )    | 25,688        | (114,345 )       | (15,619,589)    |
| Other income/(expense)                                |                  |               |                  |                 |
| Interest income                                       | 176              | -             | -                | 176             |
| Interest expense                                      | (544,215 )       | (311 )        | (8,063 ) (c),(d) | (552,589 )      |
| Change in fair market value of derivative liabilities | (1,234,145 )     | -             | -                | (1,234,145 )    |
| Gain on extinguishment of debt                        | -                | 13,375        | (13,375 ) (e)    | -               |
| Gain on adjustment in contingent consideration        | 999,347          | -             | -                | 999,347         |
| Total other income/(expense)                          | (778,837 )       | 13,064        | (21,438 )        | (787,211 )      |
| Income tax benefit/(expense)                          | (3,220 )         | -             | -                | (3,220 )        |
| Net loss  | \$ (16,312,989 ) | \$ 38,752     | \$ (135,783 )    | \$ (16,410,020) |
| Net loss per share - basic and diluted                | \$ (0.78 )       |               |                  | \$ (0.78 )      |
| Weighted average number of shares                     |                  |               |                  |                 |

|                                       |            |            |
|---------------------------------------|------------|------------|
| during the period - basic and diluted | 20,910,334 | 20,910,334 |
|---------------------------------------|------------|------------|

See accompanying notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

Adjustment Notes:

- (a) - represents the elimination of amortization and depreciation expense of \$1,125 and \$1005, respectively, within Mobile Visions, Inc. historical financial statements for the three months ended March 31, 2011
- (b) - represents the amortization of \$116,475, related to the fair value of identifiable amortizable intangible assets acquired in the transaction, as if the acquisition had been completed on January 1, 2011.
- (c) - represents the elimination of interest expense of \$311, within Mobile Visions, Inc. historical financial statement for the three months ended March 31, 2011.
- (d) - represents interest expense as if the notes payable issued in the transaction were issued January 1, 2011.
- (e) - represents the elimination of gain on extinguishment of debt of \$13,375, within Mobile Visions, Inc. historical financial statements for the three months ended March 31, 2011.



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CommerceTel Corporation  
Pro Forma Condensed Consolidated Statement of Operations  
Unaudited

|   | Historical  |   |   |   |
|---|---|---|---|---|
|   | CommerceTel<br>Twelve months<br>ended<br>December 31,<br>2011 | Adsparq<br>Three months<br>ended<br>March 31,<br>2011 | Adjustments<br>Three months<br>ended<br>March 31,<br>2011 | Pro-Forma<br>Twelve months<br>ended<br>December 31,<br>2011 |
| Revenues  |   |   |   |   |
| Revenues  | \$ 2,524,265  | \$ 240,058  | \$ -  | \$ 2,764,323  |
| Cost of revenues  | 986,854   | 21,892  | -   | 1,008,746   |
| Gross margin  | 1,537,411   | 218,166   | -   | 1,755,577   |
| Operating expenses  |   |   |   |   |
| General & administrative  | 3,625,799   | 150,785   | (3,589 ) (a)  | 3,772,995   |
| Sales & marketing   | 583,284   | 70,462  | -   | 653,746   |
| Engineering, research, & development                                    | 347,884   | 23,847  | -   | 371,731   |
| Depreciation & amortization   | 751,072   | -   | 74,772 (b)  | 825,844   |
| Goodwill Impairment   | 10,435,170  | -   | -   | 10,435,170  |
| Intangible asset impairment   | 1,325,134   | -   | -   | 1,325,134   |
| Total operating expenses  | 17,068,343  | 245,094   | 71,183  | 17,384,619  |
| Loss from operations  | (15,530,932 )   | (26,928 )   | (71,183 )   | (15,629,042)  |
| Other income/(expense)  |   |   |   |   |
| Interest income   | 176   | -   | -   | 176   |
| Interest expense  | (544,215 )  | -   | (3,560 ) (c)  | (547,775 )  |
| Change in fair market value of derivative liabilities                   | (1,234,145 )  | -   | -   | (1,234,145 )  |
| Gain on adjustment in contingent consideration                          | 999,347   | -   | -   | 999,347   |
| Total other income/(expense)  | (778,837 )  | -   | (3,560 )  | (782,397 )  |
| Income tax benefit/(expense)  | (3,220 )  | -   | -   | (3,220 )  |
| Net loss  | \$ (16,312,989 )  | \$ (26,928 )  | \$ (74,743 )  | \$ (16,414,659)   |
| Net loss per share - basic and diluted                                  | \$ (0.78 )  |   |   | \$ (0.79 )  |
| Weighted average number of shares during the period - basic and diluted |   |   |   |   |
|   | 20,910,334  |   |   | 20,910,334  |

See accompanying notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

Adjustment Notes:

(a) - to reflect the elimination of depreciation expense within Adsparg historical financial statements for the three months ended March 31, 2011

(b) - represents the amortization and depreciation of \$69,567 and \$5,205, respectively, related to the fair value of identifiable amortizable intangible assets and fixed assets acquired in the transaction, as if the acquisition had been completed on January 1, 2011.

(c) - represents interest expense as if the notes payable issued in the transaction were issued January 1, 2011.

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CommerceTel Corporation  
Pro Forma Condensed Consolidated Statement of Operations  
Unaudited

|   | Historical  |   |   | Pro-Forma<br>Twelve months<br>ended<br>December 31,<br>2011 |
|---|---|---|---|---|
|   | CommerceTel<br>Twelve months<br>ended<br>December 31,<br>2011 | DigiMark, LLC<br>Seven months<br>ended<br>July 31, 2011 | DigiMark, LLC<br>Seven months<br>ended<br>July 31, 2011 |   |
| <b>Revenues</b>                                       |   |   |   |   |
| Revenues  | \$ 2,524,265  | \$ 739,608  | \$ -  | \$ 3,263,873  |
| Cost of revenues                                      | 986,854   | 318,996   | -   | 1,305,850   |
| Gross margin  | 1,537,411   | 420,612   | -   | 1,958,023   |
| <b>Operating expenses</b>                             |   |   |   |   |
| General & administrative                              | 3,625,799   | 171,637   | -   | 3,797,436   |
| Sales & marketing                                     | 583,284   | 179,484   | -   | 762,768   |
| Engineering, research, & development                  | 347,884   | -   | -   | 347,884   |
| Depreciation & amortization                           | 751,072   | -   | 232,750   | (a) 983,822   |
| Goodwill Impairment                                   | 10,435,170  | -   | -   | 10,435,170  |
| Intangible asset impairment                           | 1,325,134   | -   | -   | 1,325,134   |
| Total operating expenses                              | 17,068,343  | 351,121   | 232,750   | 17,652,214  |
| Loss from operations                                  | (15,530,932 )   | 69,491  | (232,750 )  | (15,694,191)  |
| <b>Other income/(expense)</b>                         |   |   |   |   |
| Interest income                                       | 176   | -   | -   | 176   |
| Interest expense                                      | (544,215 )  | (44,668 )   | 31,144  | (b),(c) (557,739 )  |
| Change in fair market value of derivative liabilities | (1,234,145 )  | -   | -   | (1,234,145 )  |
| Gain on adjustment in contingent consideration        | 999,347   | -   | -   | 999,347   |
| Total other income/(expense)                          | (778,837 )  | (44,668 )   | 31,144  | (792,361 )  |
| Income tax benefit/(expense)                          | (3,220 )  | -   | -   | (3,220 )  |
| Net loss  | \$ (16,312,989 )  | \$ 24,823   | \$ (201,606 )   | \$ (16,489,772)   |
| Net loss per share - basic and diluted                | \$ (0.78 )  |   |   | \$ (0.79 )  |
| <b>Weighted average number of shares</b>              |   |   |   |   |
| during the period - basic and diluted                 | 20,910,334  |   |   | 20,910,334  |

See accompanying notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.

Adjustment Notes:

(a) - represents the amortization of \$232,750, related to the fair value of identifiable amortizable intangible assets acquired in the transaction, as if the acquisition had been completed on January 1, 2011.

(b) - represents the elimination of interest expense of \$44,668, within DigiMark LLC historical financial statement for the seven months ended July 31, 2011.

(c) - represents interest expense as if the notes payable issued in the transaction were issued January 1, 2011.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (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 controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

As required by paragraph (b) of Rules 13a-15 or 15d-15 under the Exchange Act, our management, with the participation of our president (our principal executive officer) and our chief financial officer (our principal financial officer and principal accounting officer) evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report, being December 31, 2011.

Based on this evaluation, these officers concluded that, as of December 31, 2011, these disclosure controls and procedures were not effective to ensure that the information required to be disclosed by our company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities Exchange Commission. The conclusion that our disclosure controls and procedures were not effective was due to the presence of material weaknesses in internal control over financial reporting as identified below under the heading “Management’s Report on Internal Control over Financial Reporting.” Management anticipates that such disclosure controls and procedures will not be effective until the material weaknesses are remediated.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The term “internal control over financial reporting” is defined as a process designed by, or under the supervision of, an issuer’s principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer.



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Under the supervision of our president, being our principal executive officer, and our chief financial officer, being our principal financial officer and principal accounting officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 using the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, our management concluded our internal control over financial reporting was not effective as at December 31, 2011.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company's annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011, we determined that there were control deficiencies that constituted material weaknesses which are indicative of many small companies with small staff, such as:

- (1) inadequate segregation of duties and effective risk assessment; and
- (2) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both generally accepted accounting principles in the United States and guidelines of the Securities and Exchange Commission.
- (3) inadequate closing process to ensure all material misstatements are corrected in the financial statements. This was evidenced by the fact that there were audit adjustments and restatements of the financial statements.

These control deficiencies resulted in a reasonable possibility that a material misstatement of the annual or interim financial statements could not have been prevented or detected on a timely basis. As a result of the material weaknesses described above, we concluded that we did not maintain effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by COSO. Our management is currently evaluating remediation plans for the above deficiencies. During the period covered by this annual report on Form 10-K, we have not been able to remediate the weaknesses described above. However, we plan to take steps to enhance and improve the design of our internal control over financial reporting.

Changes in Internal Control

There was no change in our internal control over financial reporting identified in connection with the evaluation of our internal control over financial reporting described above that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B.

Other Information

None.

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## PART III

## Item 10. Directors and Executive Officers and Corporate Governance

## Directors and Executive Officers

The following table sets forth information concerning our executive officers and directors, including their ages, as of March 15, 2011:

| Name             | Age | Position                             |
|------------------|-----|--------------------------------------|
| Dennis Becker    | 38  | Chief Executive Officer and Director |
| Timothy Schatz   | 41  | Chief Financial Officer              |
| David Souaid     | 38  | Director                             |
| David Jaques     | 56  | Director                             |
| H. Fraser Clarke | 36  | Director                             |
| Doug Schneider   | 49  | Director                             |
| John Harris      | 63  | Director                             |

## Dennis Becker - President &amp; Chief Executive Officer

Dennis Becker was appointed our Chief Executive Officer and a Director effective as of the closing date of the Share Exchange. Mr. Becker has been our President and Chief Executive Officer since September, 2007. He was a founder of Frontieric Corporation, a pioneer in providing complex call routing and merchant processing applications, where he was Chief Executive Officer from 2002 to 2005. Mr. Becker was also Chief Executive Officer of Bexel Technologies, which served solutions to large enterprise, from 1999 to 2001. Mr. Becker studied Computer Science at the University of Oregon and served in the United States Air Force.

## Timothy Schatz – Chief Financial Officer

Since January 2010, Mr. Schatz has been the Director of Finance and subsequently Vice President of Finance for CommerceTel Corporation and its predecessor, CommerceTel Inc. From 2008 to 2009, Mr. Schatz functioned as Corporate Accounting Manager for Locallife USA, a San Diego startup involved with local internet search engine technology and local small business marketing strategies. Until 2008, Mr. Schatz spent 13 years with Enterprise Rent-A-Car, with the final 6 years as Regional Business Manager / Controller of the Inland Empire Los Angeles region, encompassing 40 locations and over 300 employees. Mr. Schatz graduated with a Bachelor of Science in Accountancy from San Diego State University.

## David Souaid, Director

David Souaid was elected as one of our directors on the date of closing of the Share Exchange. He is currently the President of SterlingCard Payment Solutions and was previously the Senior Vice President, Sales and Marketing of Optimal Payments Inc., a credit card processing company, since 1999. He has also been a director of Sterling Payment Solutions and Mercantile Advance Corp. since 2008 respectively. He holds a B.A. in Political Science from Mount Allison University.

## David Jaques, Director

David Jaques has held senior financial positions in banking, corporate and venture capital. In his early career, he held various positions with Barclays Bank in London and provided advisory services in currency and interest rate risk



management to the bank's corporate clients. He held a similar role at Barclays Bank, New York from 1988 to 1993. He was Senior Vice President and Treasurer of Silicon Valley Bank between 1994 and 1999; founding CFO for PayPal from 1999 to 2001 and CFO of BlueRun Ventures from 2001 to 2008. Since 2008 he has provided CFO consulting services with Greenough Consulting Group and holds three other Board and advisor positions.

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H. Fraser Clarke, Director

Herbert Fraser Clarke was elected as one of our directors on the date of closing of the Share Exchange. He has been the President and Chief Operating Officer of Herbal Magic, a Toronto based weight loss company, since 2009. From 2008 to 2009 he was Chief Financial Officer of NLRC, a Newfoundland based oil and gas refinery. From 2005 to 2008, he was the Chief Executive Officer of the Hair Club, a hair restoration company. Mr. Clarke holds a business degree from Memorial University. He is a chartered accountant and a chartered financial analyst. He currently serves on a number of boards including Europe's largest provider of hair loss solutions, a United States based mobile marketing company and a Canadian mid marketing leasing firm.

Doug Schneider, Director

Mr. Schneider has been a director since December 2010. From 2007 to 2010 Mr. Schneider was the CEO of Genea Energy, a clean tech company that provides an innovative and comprehensive SaaS based energy services platform for commercial office building portfolios. Prior thereto, he served in various consulting capacities for venture capital and internet firms. He served as President, Small and Medium Enterprise (SME) Hosting Business Unit for Verio, an NTT Communications Company from 1999 to 2004. In this role, he architected a highly profitable, \$125 million revenue premier global hosting company that met the needs of over one million SMEs in 140 countries. In an earlier role as President, Web Services, he built and managed Verio's distribution channels and service operations for its shared server, virtual server, and enterprise hosting product lines, which collectively represented \$160,000 million in revenues and was the world's largest domain-based hosting company at the time. In 1999, Mr. Schneider was selected by VAR Business as one of thirty leading visionary executives in the nation shaping the future of e-business for the channel and the industry. In 2002, Verio was recognized by Frost & Sullivan for market leadership in the SME web hosting market. Mr. Schneider was a key member of the Verio (NASDAQ: VRIO) executive team responsible for executing a combined roll-up and organic growth strategy of over 50 companies to create \$5.5 billion in realized shareholder value within 5 years through the successful \$126 million IPO and eventual sale of the company to NTT Communications.

In 1994 Mr. Schneider co-founded and served as President of a regional distribution company based in Colorado that performed customized equipment fulfillment services for wireless carriers OneComm and Nextel with their first generation of integrated cellular phone and two-way radio digital products. From 1991 to 1994, he served in marketing and sales roles with CellularOne in the San Francisco Bay Area and drove significant subscriber growth by leveraging indirect sales channels. Earlier in his career, Mr. Schneider worked for Pacific Gas & Electric Company as an engineer. Mr. Schneider received a Bachelor's degree in Mechanical Engineering from University of California, Davis and an M.B.A. from the Kellogg School of Management at Northwestern University. He also serves as an industry advisor to Pelion Venture Partners, a venture capital firm focused on the IT and medical device sectors.

John Harris, Director

Mr. Harris has been a director since January 2011. From 2006 to 2009, Mr. Harris was President and CEO of eTelecare Global Solutions; a business process outsourcing ("BPO") company delivering technical support, sales, and customer care services to the Fortune 1000 market. In that capacity, he successfully led the company's IPO, privatization and ultimate merger in 2009 that created a \$1 billion BPO services company. From 2003 to 2005, he was President and CEO of Seven World Wide, a \$400 million private equity backed Marketing Services BPO Company with operations in North America and the United Kingdom. During his tenure he restructured the company, disposed of non-core assets, right sized the cost structure, and shifted the focus to profitable growth areas. Mr. Harris led the sale of the company doubling shareholder value for the investors. Prior thereto, Mr. Harris spent 25 years Electronic Data Systems (EDS) in a number of senior executive positions and was a significant contributor to the growth of the company as it scaled from \$100 million dollars in revenue to approximately \$19 billion at the time of

his departure in 1999. Mr. Harris graduated from the University of West Georgia with a BBA and MBA and is on the Board of Advisors to the Richardson School of Business. He has held board positions with a number of public and private telecommunications and technology services companies, and he currently sits on the boards of Premier Global Services, The Hackett Group, DG FastChannel and BancTec Corporation. He is a member of the compensation committee of the board of each of these companies and sits on the audit committee of the board of DG FastChannel. He is also Chief Executive Officer of Chemical Information Services.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires our directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes of ownership of common stock and our other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

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To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2011, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements applicable to them.

## Item 11. Executive Compensation

The following table provides information regarding the compensation earned during the years ended December 31, 2011 and 2010 by our (i) Chairman and Chief Executive Officer, and (ii) Chief Financial Officer. We refer to these two individuals collectively as our "named executive officers."

Summary Compensation Table\*

| Name and Principal Position | Year | Salary  | Option Awards | Total   |
|-----------------------------|------|---------|---------------|---------|
| Dennis Becker, CEO          | 2011 | 188,807 | 22,249        | 151,056 |
|                             | 2010 | 169,041 | 53,196        | 222,237 |
| Paul Meyer, CFO (1)         | 2011 | 13,750  | 39,945        | 53,695  |
|                             | 2010 | 1,250   | 4,063         | 5,313   |
| Matt Szot, CFO (2)          | 2011 | 43,487  |               | 43,487  |

(1) In accordance with the rules and regulations promulgated by the Securities and Exchange Commission, the table omits columns that are not applicable. Mr. Meyer resigned his position as CFO effective July 1, 2011.

(2) Mr. Szot resigned his position as effective October 31, 2011.

The "Option Award" expense for Mr. Becker refers to CommerceTel Corporation options granted by our board of directors on December 24, 2010 pursuant to the Incentive Stock Option Plan approved by the board on the same date. "Option Award" expense for Mr. Becker also includes \$52,708 in 2010 for options granted in our former parent, CommerceTel Canada. These options became fully vested in November 2010 pursuant to the Share Exchange transaction.

The following table presents the outstanding option awards held by each of our named executive officers as of December 31, 2011, including the value of the options awards.

Outstanding Equity Awards at December 31, 2011\*

| Name              | Number of Securities Underlying Unexercised Options (#)<br>Un-exercisable | Option Awards<br>Equity Incentive<br>Plan Awards;       |                       |                        | Stock Awards  |   |
|-------------------|---|---|-----------------------|------------------------|---|---|
|                   |   | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested |
| Dennis Becker CEO | 625,000   | 625,000   | .32                   | 12/24/2015             | 468,750   | 703,125   |

\* In accordance with the rules and regulations promulgated by the Securities and Exchange Commission, the table omits columns that are not applicable.

The amounts reported in Option Awards column of the table above reflect the aggregate compensation costs for financial statement reporting purposes for fiscal 2010 and 2011 under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation (formerly referenced as Statement of Financial Accounting Standards No. 123(R)). These amounts do not reflect amounts paid to or realized by the executive officers for fiscal 2010 or 2011. Actual amounts earned for fiscal 2010 and 2011 are included in the Summary Compensation Table above. For information on the method and assumptions used to calculate the compensation costs, see Note 5 to our audited consolidated financial statements contained herein. The "Option Award" expense for Mr. Becker and Mr. Meyer refer to CommerceTel Corporation options granted by our board of directors on December 24, 2010 pursuant to the Incentive Stock Option Plan approved by the Board on the same date. "Option Award" expense for Mr. Becker also includes \$46,546 in 2009 and \$52,708 in 2010, respectively for options granted in our former parent, CommerceTel Canada. These options became fully vested in November 2010 pursuant to the Share Exchange transaction.

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## Employment Agreement

On January 11, 2011, we entered into an employment agreement with Dennis Becker. Under the terms of the agreement, Mr. Becker will serve as our President and Chief Executive Officer for an initial term of three years from December 24, 2010 (the "Effective Date"). Unless terminated no less than 90 days prior to the expiration date by either party, the agreement is renewed automatically for successive one year periods. Under the agreement, Mr. Becker is paid a base annual salary of \$120,000. The base salary is subject to an annual increase at the sole discretion our board of directors. In addition to regular annual increases, the base salary will be increased by \$30,000 (up to a cumulative maximum of \$60,000) for each acquisition of the stock or all or substantially all of the assets of a third party entity, or the formation of joint ventures resulting in operating cash flows minus capital expenditures and dividends of no less than \$25,000 during a three month period ending six months after the completion of each such acquisition or formation of such joint venture. In addition, his salary will be increased to \$225,000 in the event we complete a financing transaction of no less than \$3,000,000 and we complete one acquisition. The board may further award him, at its sole discretion, an annual bonus of up to 50% of his base salary and grant him stock options.

If the agreement is terminated by us without cause (as defined in the agreement) or the we notify Mr. Becker that we will not renew the agreement, we will be required to pay him a severance payment equal to six months of his base salary payable in regular intervals following such termination or expiration of the agreement.

The agreement includes non-compete, non-solicitation, intellectual property assignment and confidentiality provisions that are customary in our industry.

## Non-Employee Director Compensation

We do not have a formal plan for compensation to non-employee directors.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth as of April 3, 2011, certain information regarding the beneficial ownership of our common stock. The table sets forth the beneficial ownership of (i) each person who, to our knowledge, beneficially owns more than 5% of our outstanding shares of Common Stock; (ii) each of our nominees for director and executive officer; and (iii) all of our executive officers and nominees for director as a group. The number of shares owned includes all shares beneficially owned by such persons, as calculated in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Unless otherwise indicated, the address of each shareholder is c/o the Company, 58 West Buffalo Road, Suite 200, Chandler, AZ 85225.

| Name of Beneficial Owner  | Number of Shares | Percentage(1) |
|---|------------------|---------------|
| CommerceTel Canada Corporation<br>1 First Canadian Place<br>100 King Street West<br>Toronto, ON M5X 1B2 | 7,267,972        | 31.9%         |
| Dennis Becker (2)   | 7,985,335        | 34.2%         |
| Timothy Schatz  | 112,745          | *             |
| David Souaid  | 75,000           | *             |
| David Jaques  | 100,000          | *             |
| Fraser Clarke (3)   | 7,342,972        | 32.3%         |
| Doug Schneider  | 75,000           | *             |
| John Harris   | 100,000          | *             |
| John Liviakis   | 1,445,162        | 6.4%          |
| Adsparq Limited   | 2,125,000        | 9.3 %         |

Executive Officers and Directors as a Group  
(six persons)

8,522,810

37.5%

\* Denotes less than 1%

- (1) Beneficial ownership percentages are calculated based on shares of common stock issued and outstanding. Beneficial ownership is determined in accordance with Rule 13d-3 of the Exchange Act. The number of shares beneficially owned by a person includes shares of common stock underlying options or warrants held by that person that are currently exercisable or exercisable within 60 days of April 30, 2011. The shares issuable pursuant to the exercise of those options or warrants are deemed outstanding for computing the percentage ownership of the person holding those options and warrants but are not deemed outstanding for the purposes of computing the percentage ownership of any other person.
- (2) Includes 7,267,972 shares owned by CommerceTel Canada Corporation (“CTel Canada”) of which Mr. Becker may be deemed to be the beneficial owner in his capacity as President and Chief Executive Officer of that entity. Mr. Becker disclaims beneficial ownership in the shares owned by CTel Canada in excess of his proportional ownership of CTel Canada.
- (3) Consists of shares held by CTel Canada of which Mr. Clarke may be deemed the beneficial owner in his capacity as Chairman of that entity. Mr. Clarke disclaims beneficial ownership in the shares owned by CTel Canada in excess of his proportional ownership of CTel Canada.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

The following is a description of transactions or series of transactions since January 1, 2011, or any currently proposed transaction, to which we have been a party, in which the amount involved in the transaction or series of transactions exceeds the lesser of \$120,000 or one percent of the average of our total assets as of December 31, 2011 and December 31, 2010, and in which any of our directors, executive officers or persons who we know held more than five percent of any class of our capital stock, including their immediate family members, had or will have a direct or indirect material interest, other than compensation arrangements that are described under “Employment Agreements” above.

2011 Transactions

Hidden River Ventures I, LLC is an existing shareholder in CommerceTel Corporation as a result of converting \$229,000 of payables in exchange for 415,937 shares of CommerceTel Corporation common stock. On October 26, 2010, the Company entered into a consulting agreement with a related company under common control, Hidden River, LLC, pursuant to which Hidden River, LLC would lead the Company’s acquisition strategy. The consulting agreement calls for monthly payments of \$10,000, along with periodic bonus payments associated with the success of the acquisition strategy, as well as options to purchase 700,000 shares granted on December 24, 2010 priced at \$.32 per share. Of the options granted, 349,997 options were vested as of December 24, 2011. Hidden River was paid \$140,000 in 2011.

During the year ended December 31, 2011, the Managing Director of Hidden River, LLC, became an investor in the company’s private placement with an investment of \$25,000.

During the year ended December 31, 2011, a consulting agreement was entered into with Premier Capital Partners for investor relations services in exchange for 200,000 common shares. Subsequently the Managing Director for Premier Capital Partners became an investor in the company’s private placement with an investment of \$225,000.

During the year ended December 31, 2011, the company entered into an employment agreement with the primary owner and shareholder of Digimark LLC, holder of 519,540 common shares, to serve as Executive Vice President of Business Development. He was paid \$40,000 in 2011.

Indemnification Agreements with Directors and Executive Officers

We have entered into indemnity agreements with certain directors, officers and other key employees of ours under which we agreed to indemnify those individuals under the circumstances and to the extent provided for in the agreements, for expenses, damages, judgments, fines, settlements and any other amounts they may be required to pay in actions, suits or proceedings which they are or may be made a party or threatened to be made a party by reason of their position as a director, officer or other agent of ours, and otherwise to the fullest extent permitted under Delaware law and our bylaws. We also have an insurance policy covering our directors and executive officers with respect to certain liabilities, including liabilities arising under the Securities Act of 1933, as amended, or otherwise. We believe that these provisions and insurance coverage are necessary to attract and retain qualified directors, officers and other key employees.

Review, Approval or Ratification of Transactions with Related Persons



The board conducts an appropriate review of and oversees all related party transactions on a continuing basis and reviews potential conflict of interest situations where appropriate. The board has not adopted formal standards to apply when it reviews, approves or ratifies any related party transaction. However, the board has followed the following standards: (i) all related party transactions must be fair and reasonable to us and on terms comparable to those reasonably expected to be agreed to with independent third parties for the same goods and/or services at the time they are authorized by the board and (ii) all related party transactions should be authorized, approved or ratified by the affirmative vote of a majority of the directors who have no interest, either directly or indirectly, in any such related party transaction.

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## Item 14. Principal Accounting Fees and Services

Mayer Hoffman McCann P.C. ("Mayer Hoffman") audited the Company's financial statements for the year ended December 31, 2010.

Effective February 20, 2012, the Company dismissed Mayer Hoffman as the Company's independent registered accounting firm and replaced them with M&K CPAS, PLLC ("M&K"). Effective February 24, 2012, the Company engaged M&K as its principal independent public accountant for the year ended December 31, 2011. The following table represents aggregate fees billed to us for the years ended December 31, 2011 and 2010 by M&K CPAS, PLLC, Mayer Hoffman McCann P.C., or Mayer Hoffman, Seale and Beers, CPAs, and Anton & Chia, respectively, our principal auditors for such periods. All fees described below were approved by the board of directors.

|                    | December 31,<br>2011 |                  | December 31,<br>2010 |                  |                 |
|--------------------|----------------------|------------------|----------------------|------------------|-----------------|
|                    | M&K, CPAs            | Mayer<br>Hoffman | Mayer<br>Hoffman     | Seale &<br>Beers | Anton &<br>Chia |
| Audit Fees         | \$47,555             | \$43,600         | \$31,500             | \$4,040          | \$15,600        |
| Audit-Related Fees | -                    | 6,500            | -                    | -                | 5,136           |
| Tax Fees           | -                    | 7,000            | -                    | -                | -               |
| All Other Fees     | -                    | -                | -                    | -                | -               |
| Total Fees         | \$47,555             | \$57,100         | \$31,500             | \$4,040          | \$20,736        |

Audit fees represent amounts billed for professional services rendered for the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's 10-Q reports for the fiscal year.

Under the Sarbanes-Oxley Act of 2002, the Company's audit committee is responsible for the appointment, compensation and oversight of the work of the independent auditor. As part of this responsibility, the audit committee is required to pre-approve audit and non-audit services provided by the independent auditor in order to ensure the services do not impair the auditor's independence. The SEC has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as the audit committee's responsibility for administering the engagement of the independent auditor, including pre-approval of fees. Accordingly, The Company's audit committee has adopted the following pre-approval policy and procedures for audit, audit-related, and tax services.

The audit committee has adopted an approach whereby all services obtained from the independent auditor will be pre-approved. Under this approach, an annual program of work will be approved for each of the following categories of services: audit, audit-related, and tax. Engagement-by-engagement pre-approval will not be required, except for exceptional or ad hoc incremental engagements with fees resulting in the fee category exceeding the aggregate pre-approved program of work for that category. In general, a work program for each category of services can be supplemented with additional pre-approved amounts after appropriate review of the additional services with the audit committee. The audit committee may consider specific engagements in the All Other Services category on an engagement-by-engagement basis.

For all services obtained from the independent auditor, the audit committee will consider whether such services are consistent with the SEC's rules on auditor independence. The audit committee will consider the level of audit and audit-related fees in relation to all other fees obtained from the independent auditor, and will review such level each year.

Pre-Approval Process and Delegation of Authority

The primary review and pre-approval of services to be obtained from the independent auditor and related fees will be scheduled for the audit committee meeting at the end of the financial year. If fees might otherwise exceed pre-approved amounts for any category of permissible services, then incremental amounts can be reviewed and pre-approved at subsequent audit committee meetings prior to commitment. If needed, time will be set aside in any scheduled audit committee meeting for review and pre-approval of additional services. No additional authority is delegated for pre-approval of services obtained from the independent auditor.

The independent auditor and the Company management will jointly manage a process for collecting and reporting all fees billed by the independent auditor to the Company for each financial year.

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### Audit Services

Engagement term, scope of service and fees for the annual examination of the Company's financial statements will be pre-approved by the audit committee. These audit services include the integrated audit of the Company's consolidated financial statements (including required quarterly reviews) and the effectiveness of internal control over financial reporting, audits of affiliate and subsidiary statutory financial statements, and other procedures required to be performed by the independent auditor to be able to render an opinion on the Company's consolidated financial statements.

The audit committee will be responsible for direction and oversight of the engagement of the independent auditor. At its discretion, the audit committee will obtain input from the Company management on the terms of the engagement, the effectiveness with which the engagement is carried out, and the amount of audit fees. The independent auditor is responsible for the cost-effective management of the engagement, and for ensuring that audit services are not provided prior to review and pre-approval by the audit committee.

### Audit-related Services

Audit-related services include services that are reasonably related to the performance of the audit of the Company's financial statements. These services include asset dispositions, benefit plan and joint venture audits, attestation procedures related to cost certifications and government compliance, consultations on accounting issues, and due diligence procedures. Each year the audit committee will conduct a broad review of the proposed services to ensure the independence of the independent auditor is not impaired.

General pre-approval will occur at the end of each year coincident with pre-approval of audit services. Applicable operating and staff functions will be requested to assign a process-owner to monitor the engagement of the independent auditor for audit-related services.

### Tax Services

The audit committee concurs that the independent auditor may provide certain tax services without impairing its independence. These services include preparing local tax filings and related tax services, tax planning, and other services as permitted by SEC regulations. The audit committee will not permit engaging the independent auditor (1) in connection with a transaction, the sole purpose of which may be impermissible tax avoidance, (2) for other tax services that may be prohibited by SEC rules now or in the future or (3) to perform services under contingent fee arrangements.

### All Other Services

If permissible other services requested by the Company business units must be pre-approved by the audit committee.

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## PART IV

## Item 15. Exhibits and Financial Statement Schedules

## (a)(1) Financial Statements

The Financial Statements of CommerceTel Corporation and Report of Independent Registered Public Accounting Firm are included in a separate section of this Form 10-K beginning on page F-1.

## (a)(2) Financial Statement Schedules

The schedules required to be filed by this item have been omitted because of the absence of conditions under which they are required, or because the required information is included in the financial statements or the notes thereto.

## (a)(3) Exhibits

## Exhibit

## Number Description

|         |   |
|---------|---|
| 2.1     | Share Exchange Agreement dated November 2, 2010 (1)   |
| 3.1     | Articles of Incorporation (2)   |
| 3.2     | Bylaws (2)  |
| 3.3     | Amendment to Bylaws (3)   |
| 4.1     | Form of 10% Senior Secured Promissory Bridge Note (4)   |
| 4.2     | Secured Subordinated Promissory Note, effective as of April 1, 2011(1)  |
| 4.3     | Form of Warrant (1)   |
| 4.4     | Form of Secured Subordinated Promissory Note (5)  |
| 4.5     | Form of Unsecured Subordinated Promissory Note (5)  |
| 10.1    | Form of Security Agreement (4)  |
| 10.2    | Form of Subsidiary Guaranty (4)   |
| 10.3    | Employment Agreement dated December 24, 2010 with Dennis Becker (6)   |
| 10.4    | Omitted   |
| 10.5    | Asset Purchase Agreement dated March 3, 2011 by and among the Company, CommerceTel, Inc., Adsparg and selling shareholders (1)  |
| 10.6    | Acquisition Agreement, effective as of April 1, 2011 by and among the Company, CommerceTel, Inc., Mobile Visions, Inc., Mobivity LLC and their controlling shareholders (6) |
| 10.7    | Form of Subscription Agreement (1)  |
| 10.8(1) | Asset Purchase Agreement between the Company and Digimark LLC dated June 9, 2011 (5)  |
| 10.8(2) | Amendment No. 1 dated July 8, 2011 to Asset Purchase Agreement (5)  |
| 10.8(3) | Amendment No. 2 dated as of August 1, 2011 to Asset Purchase Agreement (5)  |
| 16.1    | Letter from Former Accountants dated January 14, 2011 (6)   |
| 16.2    | Letter from Former Accountants dated January 14, 2011 (7)   |
| 31.1    | Certification of Dennis Becker, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*   |
| 31.2    | Certification of Timothy Schatz, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*  |
| 32.1    | Certification of Dennis Becker, Chief Executive Officer, and Timothy Schatz, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*            |

\* Filed herewith

- (1) Incorporated by reference to the Company's Annual Report on Form 10-K filed on April 14, 2011
- (2) Incorporated by reference to the Registration Statement on Form S-1 filed with the SEC on October 20, 2008, File No. 333-154455
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed December 2, 2011
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed November 8, 2010
- (5) Incorporated by reference to the Company's Current Report on Form 8-K filed August 15, 2011
- (6) Incorporated by reference to the Company's Current Report on Form 8-K filed January 18, 2011
- (7) Incorporated by reference to the Company's Current Report on Form 8-K filed February 24, 2012

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SIGNATURES

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

DATE: April 16, 2012

COMMERCETEL  
CORPORATION

/s/ Dennis Becker  
Dennis Becker  
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Dennis Becker, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connections therewith, with the Securities and Exchange Commission, hereby ratifying and conforming all that each of said attorneys-in-fact, or his or her substitutes, may do or cause to be done by virtue of hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature          | Title                                | Date           |
|--------------------|--------------------------------------|----------------|
| /s/ Dennis Becker  | Chief Executive Officer and Director | April 16, 2012 |
| /s/ Timothy Schatz | Chief Financial Officer              | April 16, 2012 |
| /s/ David Jaques   | Director                             | April 16, 2012 |
| /s/ Fraser Clarke  | Director                             | April 16, 2012 |
| /s/ David Souaid   | Director                             | April 16, 2012 |
| /s/ Doug Schneider | Director                             | April 16, 2012 |
| /s/ John Harris    | Director                             | April 16, 2012 |