

IZEA Holdings, Inc.  
Form 10-Q  
November 08, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 333-167960

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

Nevada  
(State or other jurisdiction of  
incorporation or organization)

37-1530765  
(I.R.S. Employer  
Identification No.)

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

Issuer's telephone number: (407) 674-6911

Check whether the registrant filed all documents and reports required to be filed by Section 12, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 4, 2011, there were 38,645,095 shares of our common stock outstanding.

Transitional Small Business Disclosure Format: Yes  No

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Quarterly Report on Form 10-Q for the period ended September 30, 2011

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## PART I: FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

IZEA Holdings, Inc.  
Consolidated Balance Sheets

|   | September 30,<br>2011<br>(unaudited) | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| Assets                                    |                                      |                      |
| Current:                                  |                                      |                      |
| Cash and cash equivalents                 | \$1,095,103                          | \$1,503,105          |
| Accounts receivable                       | 883,004                              | 391,114              |
| Prepaid expenses and other current assets | 742,672                              | 63,673               |
| Total current assets                      | 2,720,779                            | 1,957,892            |
| Property and equipment, net               | 164,733                              | 140,918              |
| Other assets:                             |                                      |                      |
| Intangible assets, net                    | 21,983                               | 3,795                |
| Security deposits                         | 21,038                               | 8,340                |
| Total assets                              | \$2,928,533                          | \$2,110,945          |

See accompanying notes to financial statements.

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IZEA Holdings, Inc.  
Consolidated Balance Sheets

|   | September 30,<br>2011<br>(unaudited) | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| Liabilities and Stockholders' Deficit   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Accounts payable  | \$886,127                            | \$636,864            |
| Accrued payroll   | 140,251                              | 81,014               |
| Unearned revenue  | 1,471,852                            | 1,097,466            |
| Current portion of notes payable  | 112,614                              | 351,568              |
| <br>Total current liabilities   | <br>2,610,844                        | <br>2,166,912        |
| Notes payable, less current portion   | 31,746                               | 10,569               |
| Deferred rent   | —                                    | 9,220                |
| Warrant liability   | 1,011,399                            | —                    |
| <br>Total liabilities   | <br>3,653,989                        | <br>2,186,701        |
| Stockholders' deficit:  |                                      |                      |
| Series A convertible preferred stock; \$.0001 par value; 2,958,786 shares authorized; 0 and 762,907 shares issued and outstanding (liquidation preference at December 31, 2010, \$1,070,473)        | —                                    | 76                   |
| Series A-1 convertible preferred stock; \$.0001 par value; 3,609,326 shares authorized; 0 and 778,307 shares issued and outstanding (liquidation preference at December 31, 2010, \$2,221,992)      | —                                    | 78                   |
| Series A-2 convertible preferred stock; \$.0001 par value; 13,099,885 shares authorized; 0 and 12,259,334 shares issued and outstanding (liquidation preference at December 31, 2010, \$10,674,017) | —                                    | 1,226                |
| Series A common stock; \$.0001 par value; 24,832,003 shares authorized; 0 and 504,270 shares issued and outstanding   | —                                    | 50                   |
| Series B nonvoting common stock; \$.0001 par value; 500,000 shares authorized, 0 and 500,000 issued and outstanding   | —                                    | 50                   |
| Series A convertible preferred stock; \$.0001 par value; 240 shares authorized; 230 and 0 shares issued and outstanding   | —                                    | —                    |
| Common stock, \$.0001 par value; 500,000,000 shares authorized; 38,645,095 and 0 issued and outstanding   | 3,864                                | —                    |
| Additional paid-in capital  | 16,261,469                           | 14,074,956           |
| Accumulated deficit   | (16,990,789 )                        | (14,152,192 )        |
| <br>Total stockholders' deficit   | <br>(725,456 )                       | <br>(75,756 )        |
| <br>Total liabilities and stockholders' deficit   | <br>\$2,928,533                      | <br>\$2,110,945      |

See accompanying notes to financial statements.

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IZEA Holdings, Inc.

Consolidated Statements of Operations

For the Three and Nine Months Ended September 30, 2011 and 2010

(unaudited)

|   | Three Months Ended September 30, |             | Nine Months Ended September 30, |               |
|---|----------------------------------|-------------|---------------------------------|---------------|
|   | 2011                             | 2010        | 2011                            | 2010          |
| Revenue   | \$1,052,675                      | \$823,030   | \$2,821,354                     | \$2,249,891   |
| Cost of sales   | 483,729                          | 442,832     | 1,306,463                       | 1,192,043     |
| Gross profit  | 568,946                          | 380,198     | 1,514,891                       | 1,057,848     |
| Operating expenses:   |                                  |             |                                 |               |
| General and administrative  | 1,950,248                        | 884,692     | 3,883,887                       | 2,570,601     |
| Sales and marketing   | 249,888                          | 180,586     | 526,112                         | 404,272       |
| Total operating expenses  | 2,200,136                        | 1,065,278   | 4,409,999                       | 2,974,873     |
| Loss from operations  | (1,631,190)                      | (685,080)   | (2,895,108)                     | (1,917,025)   |
| Other income (expense):   |                                  |             |                                 |               |
| Interest income (expense), net                                    | (3,964)                          | (9,058)     | (17,060)                        | (60,654)      |
| Change in fair value of warrant liability                         | 43,780                           | —           | 73,571                          | —             |
| Other income (expense), net                                       | —                                | —           | —                               | (276)         |
| Total other income (expense)                                      | 39,816                           | (9,058)     | 56,511                          | (60,930)      |
| Net loss  | \$(1,591,374)                    | \$(694,138) | \$(2,838,597)                   | \$(1,977,955) |
| Weighted average common shares<br>outstanding – basic and diluted | 38,378,808                       | 645,602     | 19,748,591                      | 645,602       |
| Loss per common share – basic and diluted                         | \$(0.04)                         | \$(1.08)    | \$(0.14)                        | \$(3.06)      |



See accompanying notes to financial statements.

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IZEA Holdings, Inc.  
 Consolidated Statement of Stockholders' Deficit  
 For the Nine Months Ended September 30, 2011  
 (unaudited)

## IZEA, Inc.

|   | Series A<br>Convertible<br>Preferred Stock |       | Series A-1<br>Convertible<br>Preferred Stock |       | Series A-2<br>Convertible<br>Preferred Stock |          | Series A<br>Common Stock |       | Series B<br>Nonvoting<br>Common Stock |       |
|---|--|-------|--|-------|--|----------|--------------------------|-------|---------------------------------------|-------|
|   | Shares                                     | Amt   | Shares                                       | Amt   | Shares                                       | Amt      | Shares                   | Amt   | Shares                                | Amt   |
| Balance,<br>December 31,<br>2010          | 762,907                                    | \$76  | 778,307                                      | \$78  | 12,259,334                                   | \$1,226  | 504,270                  | \$50  | 500,000                               | \$50  |
| Exercise of<br>stock options              | —  | —     | —  | —     | —  | —        | 14,822                   | —     | —                                     | —     |
| Reverse merger<br>and<br>recapitalization | (762,907)                                  | (76 ) | (778,307)                                    | (78 ) | (12,259,334)                                 | (1,226 ) | (519,092)                | (50 ) | (500,000)                             | (50 ) |
| Balance,<br>September 30,<br>2011         | —  | —     | —  | —     | —  | —        | —                        | —     | —                                     | —     |

## IZEA Holdings, Inc.

|  | Series A<br>Convertible<br>Preferred Stock |     | Common Stock |       | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity<br>(Deficit) |
|--|--|-----|--------------|-------|----------------------------------|------------------------|---|
|  | Shares                                     | Amt | Shares       | Amt   |                                  |                        |   |
| Balance, December 31,<br>2010  | —  | \$— | —            | \$—   | \$14,074,956                     | \$(14,152,192)         | \$(75,756 )                                   |
| Reverse merger and<br>recapitalization   | —  | —   | 35,000,000   | 3,500 | (2,020 )                         | —                      | —   |
| Sale of common and<br>preferred stock and<br>warrants and exchange<br>of promissory note, net<br>of offering costs and<br>beneficial conversion<br>feature | 230  | —   | 3,121,210    | 312   | 3,057,161                        | —                      | 3,057,473                                     |
| Fair value of warrants<br>issued in offering   | —  | —   | —            | —     | (1,083,210 )                     | —                      | (1,083,210 )                                  |
| Exercise of stock options  | —  | —   | 23,885       | 2     | 1,597                            | —                      | 1,599   |
| Stock-based<br>compensation shares   | —  | —   | 500,000      | 50    | 164,950                          | —                      | 165,000                                       |

|                                  |     |     |            |         |            |                |              |
|----------------------------------|-----|-----|------------|---------|------------|----------------|--------------|
| issued in exchange for services  |     |     |            |         |            |                |              |
| Stock-based compensation expense | —   | —   | —          | —       | 48,035     | —              | 48,035       |
| Net loss                         | —   | —   | —          | —       | —          | (2,838,597 )   | (2,838,597 ) |
| Balance, September 30, 2011      | 230 | \$— | 38,645,095 | \$3,864 | 16,261,469 | \$(16,990,789) | \$(725,456 ) |

See accompanying notes to financial statements.

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IZEA Holdings, Inc.

Consolidated Statements of Cash Flows  
(unaudited)

| Nine Months Ended September 30,  | 2011         | 2010           |
|--|--------------|----------------|
| Cash flows from operating activities:  |              |                |
| Net loss   | \$(2,838,597 | ) \$(1,977,955 |
| Adjustments to reconcile net loss to net cash used for operating activities: |              |                |
| Depreciation and amortization  | 33,187       | 69,613         |
| Stock-based compensation   | 130,535      | 5,192          |
| Loss on disposal of equipment  | —            | 608            |
| Change in fair value of warrant liability                                    | (73,571      | ) —            |
| Cash provided by (used for):   |              |                |
| Accounts receivable  | (491,890     | ) (79,536      |
| Prepaid expenses and other current assets                                    | (596,499     | ) (46,833      |
| Accounts payable   | 249,263      | 214,618        |
| Accrued payroll  | 59,237       | 26,867         |
| Unearned revenue   | 374,386      | 343,417        |
| Deferred rent  | (9,220       | ) —            |
| Net cash used for operating activities                                       | (3,163,169   | ) (1,444,009   |
| Cash flows from investing activities:  |              |                |
| Purchase of property and equipment   | (3,051       | ) (12,054      |
| Purchase of intangible asset   | (20,000      | ) —            |
| Security deposits  | (12,698      | ) 7,250        |
| Net cash used for investing activities                                       | (35,749      | ) (4,804       |
| Cash flows from financing activities:  |              |                |
| Proceeds from the issuance of series A2 preferred stock                      | —            | 2,655,017      |
| Proceeds from issuance of convertible notes payable                          | —            | 600,000        |
| Proceeds from issuance of promissory note                                    | 500,000      | —              |
| Proceeds from issuance of common and preferred stock and warrants, net       | 2,557,473    | —              |
| Proceeds from exercise of stock options                                      | 1,599        | 918            |
| Payments on notes payable  | (268,156     | ) (250,000     |
| Net cash provided by financing activities                                    | 2,790,916    | 3,005,935      |
| Net (decrease) increase in cash and cash equivalents                         | (408,002     | ) 1,557,122    |
| Cash and cash equivalents, beginning of year                                 | 1,503,105    | 515,446        |
| Cash and cash equivalents, end of period                                     | \$1,095,103  | \$2,072,568    |
| Supplemental cash flow information:  |              |                |
| Cash paid during year for interest   | \$18,866     | \$57,965       |
| Non-cash financing and investing activities:                                 |              |                |
| Acquisition of assets through capital lease                                  | \$50,379     | \$—            |

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|  |             |           |
|--|-------------|-----------|
| Series A2 Preferred Stock issued for conversion of notes payable plus accrued interest | —           | 1,444,800 |
| Promissory note exchanged in financing arrangement                                     | \$500,000   | \$—       |
| Fair value of warrants issued  | \$1,084,970 | \$—       |
| Value of common stock issued for prepaid services                                      | \$82,500    |           |
| See accompanying notes to financial statements.  |             |           |

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IZEA Holdings, Inc.  
Notes to Consolidated Financial Statements  
(unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of September 30, 2011, the consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, the consolidated statement of stockholders' deficit for the nine months ended September 30, 2011 and the consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010 are unaudited but include all adjustments that are, in the opinion of management, necessary for a fair presentation of our financial position at such dates and our results of operations and cash flows for the periods then ended in conformity with U.S. generally accepted accounting principles ("US GAAP"). The consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements at that date and included in our Form 8-K dated May 12, 2011. Operating results for the nine months ended September 30, 2011 are not necessarily indicative of results that may be expected for the entire fiscal year. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included herein.

Nature of Business and Reverse Merger and Recapitalization

IZEA, Inc. ("IZEA") is the leading marketplace for consumer generated advertising, connecting advertisers with content creators such as bloggers, tweeters and other consumer content creators in order to develop and distribute compelling content throughout the blogosphere and social networks. Advertisers compensate content creators to promote their products, services and websites. IZEA is headquartered in Orlando, Florida, and was incorporated as PayPerPost, Inc. in the State of Florida in February 2006. Effective September 19, 2006, IZEA was reorganized and incorporated in the State of Delaware. Effective November 2, 2007, PayPerPost, Inc. changed its name to IZEA, Inc.

On May 12, 2011, IZEA, Inc. entered into a Share Exchange Agreement (the "Exchange") with a public shell company, IZEA Holdings, Inc., formerly known as Rapid Holdings, Inc. ("IZEA Holdings"). IZEA's shareholders transferred all of their issued and outstanding common and preferred shares of IZEA in exchange for shares of common stock of IZEA Holdings as more fully described in Note 3. Such Exchange caused IZEA to become a wholly-owned subsidiary of IZEA Holdings and IZEA shareholders became the majority shareholders of IZEA Holdings. The Exchange is being accounted for as a reverse-merger and recapitalization and IZEA is considered the accounting acquirer for accounting purposes and IZEA Holdings the acquired company. The business of IZEA became the business of IZEA Holdings. Consequently, the assets and liabilities and the operations reflected in the historical financial statements prior to the Exchange are those of IZEA and are recorded at the historical cost basis of IZEA.

Principles of Consolidation

The consolidated financial statements include the accounts of the IZEA Holdings as of the date of the reverse merger, and its wholly owned subsidiary, IZEA (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Going Concern and Management's Plans

The Company has incurred significant losses from operations since inception and has an accumulated deficit of \$16,990,789 as of September 30, 2011. The Company's financial statements have been prepared on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's continuation as a going concern is dependent upon attaining profitable operations through achieving revenue growth targets while maintaining current fixed expense levels. However, it will have additional expenses related to now being a public company. As a result of the approximately \$3.0 million of net proceeds

received from the sale of stock units (see Note 4) , the Company believes it will have sufficient cash to satisfy the Company's projected working capital and capital expenditure needs, and debt obligations through September 30, 2012.

However, if cash provided by operations is not sufficient, management plans to obtain additional debt or equity financing. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of the Company's common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if the Company is able to raise the funds required, it is possible that the Company could incur unexpected costs and expenses, fail to collect significant amounts owed to it, or experience unexpected cash requirements that would force the Company to seek alternative financing. Furthermore, if the Company issues additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. The inability to obtain additional capital may restrict the Company's ability to grow and may reduce its ability to continue to conduct business operations. There are no assurances that the Company will be successful in meeting its cash flow requirements,. However, management is confident that, if necessary, there are alternatives available to fund operations and meet cash requirements through September 30, 2012.

IZEA Holdings, Inc.  
 Notes to Consolidated Financial Statements  
 (unaudited)

Cash and Cash Equivalents and Concentration

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

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. All non-interest bearing cash balances were fully insured at September 30, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the Company's non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at September 30, 2011 approximated \$767,000.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable are customer obligations due under normal trade terms. Uncollectability of accounts receivable is not significant since most customers are not bound by contract and are required to fund the Company for all the costs of an "opportunity", defined as an order created by an advertiser for a publisher to write about the advertiser's product. If a portion of the account balance is deemed uncollectible, the Company will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. Management determines the collectability of accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. The Company has not recorded a reserve for doubtful accounts at December 31, 2010 and September 30, 2011.

Concentrations of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company also controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable. At September 30, 2011, two customers, each of whom accounted for more than 10% of the Company's accounts receivable, accounted for 28% of total accounts receivable in aggregate.

Property and Equipment

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

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

Major additions and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. When assets are retired or otherwise disposed of, related costs and accumulated depreciation and amortization are removed and any gain or loss is reported as other income or expense. Depreciation and amortization expense for the three months ended September 30, 2011 and 2010 was \$10,788 and \$18,402, respectively. Depreciation and amortization expense for the nine months ended September 30, 2011 and 2010 was \$29,615 and \$66,767, respectively.



#### Impairment of Long-Lived Assets

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

#### Revenue Recognition

Revenue consists of content creator fees, service fees to establish and maintain advertiser accounts, and listing fees associated with advertiser “opportunities”. Revenue is recognized when opportunities are posted on the Company’s websites and when related payments are made to the content creators after their content has been listed for the requisite period. Customers prepay for the Company’s services, which are recorded as unearned revenue. The Company recognizes revenue in accordance with Accounting

IZEA Holdings, Inc.  
Notes to Consolidated Financial Statements  
(unaudited)

Standards Codification on Principal Agent Considerations. The Company records its revenue on the gross amount earned since the Company generally is the primary obligor in the arrangement, establishes the pricing and determines the service specifications.

#### Advertising Costs

Advertising costs are charged to expense as they are incurred, including payments to contact creators to promote the Company. Advertising expense charged to operations for the three months ended September 30, 2011 and 2010 were approximately \$148,000 and \$149,000, respectively, and are included in sales and marketing expense in the accompanying Statements of Operations. Advertising expense charged to operations for the nine months ended September 30, 2011 and 2010 were approximately \$367,000 and \$309,000, respectively, and are included in sales and marketing expense in the accompanying Statements of Operations.

#### Deferred Rent

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

#### Income Taxes

The Company has not recorded current income tax expense due to the generation of net operating losses. Deferred income taxes are accounted for using the balance sheet approach which requires recognition of deferred tax assets and liabilities for the expected future consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized.

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company's remaining open tax years subject to examination by the Internal Revenue Service include the years ended December 31, 2007 through 2010.

#### Preferred Stock

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

#### Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with FASB ASC 815, Derivatives and Hedging (“ASC 815”), which requires additional disclosures about the Company’s objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements. The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt and equity instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

#### Beneficial Conversion and Warrant Valuation

The Company records a beneficial conversion feature (“BCF”) related to the issuance of convertible debt and equity instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the

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intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation are recognized a) for convertible debt as interest expense over the term of the debt, using the effective interest method or b) for preferred stock as dividends at the time the stock first becomes convertible.

#### Fair Value of Financial Instruments

The Company's financial instruments are recorded at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

- Level 1 – Valuation based on quoted market prices in active markets for identical assets and liabilities.
- Level 2 – Valuation based on quoted market prices for similar assets and liabilities in active markets.
- Level 3 – Valuation based on unobservable inputs that are supported by little or no market activity, therefore requiring management's best estimate of what market participants would use as fair value.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of September 30, 2011. The Company uses the market approach to measure fair value of its Level 1 financial assets, which include cash equivalents of \$1,015,990 and \$1,163,062 at September 30, 2011 and December 31, 2010, respectively. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company does not have any Level 2 financial assets or liabilities. The Company's Level 3 financial liabilities measured at fair value consisted of the warrant liability as of September 30, 2011 (see Note 5).

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash, accounts receivable, other receivables, accounts payable, and accrued expenses. The fair value of the Company's notes payable approximate their carrying value based upon current rates available to the Company.

#### Stock-Based Compensation

Stock-based compensation cost related to stock options granted under the 2011 Equity Incentive Plan (the "Plan" – see Note 6) is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. The Company estimates the fair value of each option award issued under the Plan on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The Company estimates the volatility of its common stock at the date of grant based on the volatility of comparable peer companies which are publicly traded. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. The Company uses the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. The Company used the following assumptions for options granted during the nine months ended September 30, 2011 and 2010:

|               | Three Months Ended    |                       | Nine Months Ended     |                       |
|---------------|-----------------------|-----------------------|-----------------------|-----------------------|
|               | September 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Expected term | 5--10 years           | none                  | 5--10 years           | 4 years               |

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|                          |                |      |                |        |
|--------------------------|----------------|------|----------------|--------|
| Average volatility range | 53.86%--53.97% | none | 53.86%--55.03% | 57.56% |
| Risk free rate range     | 1.98%--3.00%   | none | 1.84%--3.17%   | 3.22%  |
| Expected dividends       | 0              | 0    | 0              | 0      |

The Company estimates forfeitures when recognizing compensation expense and this estimate of forfeitures is adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also impact the amount of unamortized compensation expense to be recognized in future periods. Current average expected forfeiture rates were 20.34% and 25.21% during the nine months ended September 30, 2011 and 2010, respectively. There were no options issued during the three months ended September 30, 2010.

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#### Non-employee Stock-Based Compensation

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of EITF 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring , or in Conjunction with Selling Goods or Services," now ASC 505 and EITF 00-18 "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees," now ASC 505. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable in accordance with ASC 718.

#### Segment Information

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

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Recent Accounting Pronouncements

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

#### NOTE 2. NOTES PAYABLE

##### Note Payable – Bank

On July 15, 2008, IZEA entered into a \$1,000,000 Loan and Security Agreement ("Note Payable") with Silicon Valley Bank, with an interest rate of 8% per annum, payable monthly. Interest only was payable through December 31, 2008. Repayment of principal is due in thirty-six consecutive equal monthly installments, or approximately \$333,333 per year, beginning in January 2009 through December 31, 2011. The Note Payable is secured by all assets of IZEA. The principal balance outstanding on the Note Payable was \$83,333 and \$333,333 at September 30, 2011 and December 31, 2010, respectively.

In conjunction with the issuance of the Note Payable, IZEA also issued initial warrants to purchase 2,216 shares of common stock (as amended in connection with reverse merger transaction – see Note 3), immediately exercisable, at an exercise price of \$0.2039 (as adjusted) per share. Per the terms of the Note Payable, IZEA also issued 1,108 (as adjusted) additional warrants, containing similar terms as the initial warrants, for a total of 3,324 (as adjusted) warrants issued under the Note Payable. As the result of the exchange discussed in Note 3, these warrants were assumed by the Company. The fair value associated with the warrants was not recorded since the amount was insignificant to the financial statements. The warrants expire on July 15, 2015 and automatically convert to common stock on this date if the fair market value of the Company's common stock is greater than the warrant exercise price.

Capital Lease

During 2010 and 2011, IZEA entered into capital leases for equipment which expire in June 2012 and August 2014, respectively. The balance outstanding under the leases included in the current and long-term portion of notes payable on the accompanying balance sheet was \$61,027 and \$28,804 at September 30, 2011 and December 31, 2010, respectively.

NOTE 3. STOCKHOLDERS' EQUITY

Pre-Reverse Merger Transactions

On September 21, 2006, IZEA issued 762,907 shares of Series A Preferred Stock with a par value of \$0.0001 for \$3,000,000 less issuance costs of \$23,000. Series A Preferred stockholders were entitled to a preferential dividend, which accrued and accumulated on such shares on an annual basis at a rate of \$.0236 per share subject to adjustment in accordance with certain anti-dilution provisions. Such dividends accrued from day to day whether or not they have been declared or whether or not there were funds legally available to the Company for payment. At December 31, 2010, dividends of \$770,498 had accrued but had not been declared; therefore, no provision for the Series A Preferred Stock dividends was included in these financial statements.

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During 2007, IZEA issued a total of 778,307 shares of Series B Preferred Stock with a par value of \$0.0001 for \$7,025,000, less issuance costs of \$72,612. On May 10, 2010, IZEA renamed its Series B Preferred Stock to Series A-1 Preferred Stock. All rights and preferences under the renamed Series A-1 Preferred Stock remained the same. Series A-1 Preferred stockholders were entitled to a preferential dividend, which accrued and accumulated on such shares on an annual basis at a rate of \$.05415 per share subject to adjustment in accordance with certain anti-dilution provisions. Such dividends accrued whether or not they have been declared or whether or not there were funds legally available to IZEA, Inc. for payment. At December 31, 2010, dividends of \$1,519,493 had accrued but had not been declared; therefore, no provision for Series A-1 Preferred Stock dividends was included in these financial statements.

On May 10, 2010, IZEA's board of directors declared a ten-for-one (10:1) reverse stock split on the shares of IZEA's common and preferred stock, increased the number of authorized shares of common and preferred stock, renamed the Series B Preferred Stock to Series A-1 Preferred Stock and created a new Series A-2 Preferred Stock. The preferred stock shares included herein were adjusted for the 10:1 reverse stock split.

On May 10, 2010, IZEA issued a total of 7,537,771 shares of Series A-2 Preferred Stock with a par value of \$0.0001 for consideration of \$2,713,600 less issuance costs of \$54,046. Series A-2 Preferred stockholders are entitled to a preferential dividend, which accrued and accumulated on such shares on an annual basis at a rate of \$.80 subject to adjustment in accordance with certain anti-dilution provisions on such shares of Series A-2 Preferred Stock. Such dividends accrued whether or not they have been declared or whether or not there were funds legally available to IZEA for payment. At December 31, 2010, dividends of \$9,807,467 had accrued but had not been declared; therefore, no provision for the Series A-2 Preferred stock dividends was included in these financial statements.

On May 6, 2011, all of the Series A preferred stockholders and certain of the Series A-1 and A-2 preferred stockholders transferred their shares, along with all their rights and preferences, to IZEA, Inc.'s CEO and CFO for an aggregate price of \$1 each. The total shares purchased by management of IZEA were 762,907 Series A Preferred Shares, 766,047 Series A-1 Preferred Shares and 12,217,669 Series A-2 Preferred Shares.

In May 2011, prior to the reverse merger transaction discussed below, all remaining outstanding shares of Series A, A-1 and A-2 Preferred Stock were converted into IZEA common stock in contemplation of the exchange of these shares for common shares of IZEA Holdings common stock.

#### Reverse Merger Transaction

On May 12, 2011, IZEA and its shareholders entered into a Share Exchange Agreement (the "Exchange Agreement") with IZEA Holdings, Inc., formerly known as Rapid Holdings, Inc., a publicly traded shell company incorporated as a Nevada Corporation on March 22, 2010. At the closing of the exchange, each share of IZEA's Series A, A-1 and A-2 preferred stock and Series A and Series B common stock issued and outstanding immediately prior to the closing of the exchange was exchanged for the right to receive shares of common stock of IZEA Holdings. Accordingly, an aggregate of 22,500,000 shares of IZEA Holdings common stock were issued to the IZEA shareholders. Additionally, immediately prior to the exchange, IZEA had outstanding options to purchase an aggregate of 3,712,365 shares of common stock and an outstanding warrant to purchase 3,324 shares of Series A-1 common stock (See Note 2). Upon the closing of the exchange, the Company canceled the options of IZEA and authorized the issuance of the same number of options to these option-holders pursuant to its newly created 2011 Equity Incentive Plan (see Note 6). Furthermore, upon closing of the exchange, the Company assumed the outstanding warrants of IZEA.



Immediately following the closing of the exchange, under an Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, IZEA Holdings transferred all of its pre-exchange assets and liabilities to a wholly-owned subsidiary, RTL Holdings, Inc. (“SplitCo”) and thereafter, pursuant to a stock purchase agreement, transferred all of the outstanding capital stock of SplitCo to a former officer and director of IZEA Holdings, in exchange for the cancellation of shares of the IZEA Holdings common stock he owned. There were 12,500,000 shares of common stock held by persons who acquired such shares in purchases from stockholders of IZEA Holdings prior to the exchange that remained outstanding. Following the closing of the exchange and the cancellation of shares in the Split-Off, there were 35,000,000 shares of common stock issued and outstanding. Approximately 64.29% of such issued and outstanding shares were held by the IZEA shareholders.

#### Authorization of Convertible Preferred Stock

In May 2011, the Board of Directors designated 240 shares of its Preferred Stock as Series A Preferred Stock. Each share of Series A Preferred Stock is convertible into 30,303 shares of common stock at the option of the preferred holder.

#### Stock Issued for Services

On May 24, 2011, the Company entered into an investor relations agreement with a consulting company to provide investor

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relations services for two months beginning September 1, 2011 (as amended). In accordance with the agreement, the Company paid \$1,190,000 in cash with proceeds from the May 2011 Offering and issued 500,000 shares of common stock valued at \$165,000 based on \$0.33 per common share in August 2011. A total of \$677,500 was expensed and included in general and administrative expense in the accompanying Statements of Operations during the three months ended September 30, 2011. The remaining \$677,500 is included in prepaid expenses and other current assets in the accompanying Balance Sheet as of September 30, 2011.

NOTE 4. FINANCING ARRANGEMENT

On May 24, 2011, May 26, 2011 and August 15, 2011, the Company entered into Subscription Agreements (the "Agreements") with certain investors (the "Investors") whereby it sold an aggregate of 333 units (the "Units") at a purchase price of \$10,000 per Unit (the "May 2011 Offering") for an aggregate purchase price of \$3,330,000. Of the gross proceeds received, (i) \$500,000 was received on May 11, 2011 under a promissory note that was contractually exchangeable into 50 Units under the Offering, and (ii) \$50,000 was received for the purchase of 5 Units from the Company's Chief Executive Officer. Each Unit consisted of either (i) 30,303 shares of the Company's common stock or (ii) one share of the Company's recently designated Series A Preferred Stock, which is convertible into 30,303 shares of common stock (See Note 3), plus a five-year warrant to purchase 18,182 shares of common stock for \$9,091 or \$0.50 per linked Common Share (the "Warrants").

As a result of the May 2011 Offering, Investors who purchased 230 Units elected to receive preferred stock and Investors who purchased 103 Units elected to receive common stock. Accordingly, the Company issued (i) 3,121,210 shares of common stock, (ii) 230 shares of Series A Preferred Stock, which are linked by conversion to 6,969,690 shares of common stock, and (iii) 333 Warrant Contracts that are linked by exercise to an aggregate of 6,054,606 shares of common stock.

Direct expenses associated with the May 2011 Offering amounted to \$290,127 and included (i) placement agent, legal and other fees for cash of \$272,527, and (ii) a warrant to the placement agent and its affiliates to purchase 100,000 shares of common stock under the same terms and conditions as the Warrants, which had a fair value of \$17,600. Accordingly, net cash proceeds from the May 2011 Offering amounted to \$3,057,473.

The Company entered into registration rights agreements (the "Registration Rights Agreement") with the Investors in the May 2011 Offering, pursuant to which the Company agreed to file a "resale" registration statement with the SEC covering the shares of common stock issuable upon conversion of Series A Preferred Stock and the shares of common stock underlying the Warrants within six (6) months after the final closing date of the May 2011 Offering (i.e. February 15, 2012) (the "Filing Date"). The Company agreed to use its reasonable best efforts to have the registration statement declared effective within nine (9) months after the final closing date of the May 2011 Offering (i.e. May 15, 2012) (the "Effectiveness Deadline") and to maintain the effectiveness of the registration statement from the effective date until all securities have been sold or are otherwise able to be sold pursuant to Rule 144 without restriction or limitation.

Pursuant to the Registration Rights Agreement, the Company is obligated to pay to Investors a fee of 1% per month of the Investors' investment, payable in cash, for every thirty (30) day period up to a maximum of 6%, (i) following the required Filing Date that the registration statement has not been filed and (ii) following the required Effectiveness Deadline that the registration statement has not been declared effective; provided, however, that the Company shall not be obligated to pay any such liquidated damages if the Company is unable to fulfill its registration obligations as a result of rules, regulations, positions or releases issued or actions taken by the SEC pursuant to its authority with

respect to “Rule 415”, provided the Company registers at such time the maximum number of shares of common stock permissible upon consultation with the staff of the SEC and provided further that the Company will not be obligated to pay liquidated damages at any time following the one year anniversary of the Final Closing Date (as defined in the Registration Rights Agreements) of the May 2011 Offering. For a period of 18 months following the Final Closing Date, the Company has agreed not to file any registration statement on Form S-8 with the SEC without the approval of holders of a majority of the Shares sold in the offering.

In applying current accounting standards to the financial instruments issued in the Offering, the Company first considered the classification of the Series A Preferred Stock under ASC 480 Distinguishing Liabilities from Equity, and the Warrants (including the warrants issued to the placement agent) under ASC 815 Derivatives and Hedging. The Series A Preferred Stock is perpetual preferred stock without redemption or dividend provisions, contingent or otherwise. Further, the Series A Preferred Stock is convertible into a fixed number of shares of common stock with adjustments to the conversion price solely associated with equity restructuring events such a stock splits and recapitalization. Generally redemption provisions that provide for the mandatory payment of cash to the Investor to settle the contract or certain provisions that cause the number of linked shares of common stock to vary result in liability classification; and, in some instances, classification outside of stockholders’ equity. There being no such provisions associated with the Series A Preferred Stock, it is classified as a component of stockholders’ equity. The Warrants and the placement agent warrants were also evaluated for purposes of classification. These financial instruments embody two features

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that are not consistent with the concept of stockholders' equity. First, the exercise price of \$0.50 is subject to adjustment upon the issuance of common stock or common share linked contracts at prices below the contractual exercise prices. This particular provision is in place for the first two years of the contractual term of five years. Second, the financial instruments extend a fair-value (defined as Black-Scholes) cash redemption right to the Investors in the event of certain fundamental transactions, certain of which are not within the control of the Company. This particular provision is a written put and current accounting standards provide that such provisions are not consistent with the concept of stockholders' equity. As a result, the Warrants and the placement agent warrant require liability classification as derivative warrants. Derivative warrants are carried both initially and subsequently at fair value with changes in fair value reflected in income (see Note 5).

The second classification-related accounting consideration related to the possibility that the conversion option embedded in the Series A Preferred Stock may require classification outside of stockholders' equity. Generally, an embedded feature in a hybrid financial instrument (such as the Series A Preferred Stock) that both meets the definition of a derivative financial instrument and is not clearly and closely related to the host contract in term of risks would require bifurcation and accounting under derivative standards. The embedded conversion option is a feature that embodies risks of equity. The Company has concluded that the Series A Preferred Stock is a contract that affords solely equity risks. Accordingly, the embedded conversion option is, in fact, clearly and closely related to the host contract and bifurcation is not required.

Another distinction that the Company made in accounting for the Offering was to separate the Units sold to the Company's Chief Executive Officer from the financing for purposes of determining whether the arrangement constituted any form of compensation. As mentioned in the introductory paragraph above, 5 Units were sold to the Company's Chief Executive Officer for \$50,000. Generally, under ASC 718 Compensation – Stock Compensation the amount that the fair value of financial instruments issued to an employee in excess of amounts contributed by the employee give rise to compensation expense for accounting purposes. As illustrated in the table below, compensation expense of \$16,000 arose from this element of the Offering.

The following table summarizes the components of the Offering, their fair values (which is further discussed later) and the allocation that was given effect in the Company's financial statements:

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|   | Financing    | Compensation | Direct Expenses | Total          |
|---|--------------|--------------|-----------------|----------------|
| Common stock and common stock equivalents:          |              |              |                 |                |
| Common stock  | 3,121,210    | —            | —               | 3,121,210      |
| Common shares that are linked to other contracts:   |              |              |                 |                |
| Series A Preferred Stock                            | 6,818,175    | 151,515      | —               | 6,969,690      |
| Warrants  | 5,963,696    | 90,910       | 100,000         | 6,154,606      |
|   | 15,903,081   | 242,425      | 100,000         | 16,245,506     |
| Fair value of the financial Instruments:            |              |              |                 |                |
| Common stock (1)                                    | \$1,030,000  | \$—          | \$—             | \$1,030,000    |
| Series A Preferred Stock (2)                        | 2,250,000    | 50,000       | —               | 2,300,000      |
| Warrants (3)  | 1,049,610    | 16,000       | 17,600          | 1,083,210      |
|   | \$4,329,610  | \$66,000     | \$17,600        | \$4,413,210    |
| Allocation of the transaction basis for accounting: |              |              |                 |                |
| Common stock  | \$(700,397   | )\$—         | \$92,522        | \$(607,875 )   |
| Series A Preferred Stock                            | (825,567     | )(34,421     | )197,605        | (662,383 )     |
| Derivative warrants                                 | (1,049,610   | )(16,000     | )(17,600        | )(1,083,210 )  |
| Paid-in capital (BCF)(4)                            | (704,426     | )(15,579     | )               | (720,005 )     |
| Compensation expense                                | —            | 16,000       | —               | 16,000         |
|   | \$(3,280,000 | )\$50,000    | )\$272,527      | \$(3,057,473 ) |
| Cash consideration (expense)                        | \$2,780,000  | \$50,000     | \$(272,527      | )\$2,557,473   |
| Advances on exchange                                | 500,000      | —            |                 | 500,000        |
|   | \$3,280,000  | \$50,000     | \$(272,527      | )\$3,057,473   |

(1) The fair value of the Company's common stock was established based upon the price paid by the Investors in the Offering.

(2) The fair value of the Company's Series A Preferred Stock was established based upon its Common Stock Equivalent Value ("CSE"). All other features included in the Company's Series A Preferred Stock, such as the liquidation preference did not give rise to significant incremental value above the CSE Value. The Series A Preferred Stock does provide for dividends or redemptions in cash.

(3) The derivative warrants were valued using the Binomial Lattice Valuation Technique and gives effect to the incremental value associated with down-round financing anti-dilution protection features. See Note 5 for more information on the Company's derivative warrants and valuation methodologies.

(4) A Beneficial Conversion Feature ("BCF") arises when convertible securities, such as the Series A Preferred Stock, have effective conversion prices that are lower than the fair value of the common stock into which they are convertible. Effective conversion prices are calculated as the allocable proceeds (or basis) over the number of linked common shares.

The basis in the transactions outlined above, which represent the cash received from the Investors and the fair value of the financial instruments that were subject to compensation consideration, were allocated to the financial instruments following current accounting standards. The basis of the financing was allocated first to derivative financial instruments because those financial instruments are required under ASC 815 to be carried both initially and subsequently at their fair values. To the extent that the fair value of the derivatives exceeded the basis, the Company is required to record a charge to income for the difference. The financial instruments issued under the arrangement that required compensation consideration were recorded at their fair values and the difference between those amounts and the consideration received by the Company was recorded as stock-based compensation expense. The direct expenses are represented by a combination of the cash that the Company paid plus the fair value of the warrants that were issued.

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## NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are defined as financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets. The Company generally does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company has entered into the Financing Arrangement discussed in Note 4 that gave rise to derivative warrants. As required by ASC 815, these financial instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

The following table summarizes the Company's derivative activity for the three months ended September 30, 2011:

|   | Linked<br>Common<br>Shares | Warrant<br>Liability<br>Amount |
|---|----------------------------|--------------------------------|
| Beginning balance, June 30, 2011          | 6,063,696                  | \$1,037,419                    |
| Issuance of derivative warrants:          |                            |                                |
| Financing arrangement in Note 4           | 90,910                     | 16,000                         |
| Other transactions                        | 10,000                     | 1,760                          |
| Exercise or expiration                    | —                          | —                              |
| Change in fair value of warrant liability | —                          | (43,780 )                      |
| Ending balance, September 30, 2011        | 6,164,606                  | \$1,011,399                    |

The following table summarizes the Company's derivative activity for the nine months ended September 30, 2011:

|   | Linked<br>Common<br>Shares | Warrant<br>Liability<br>Amount |
|---|----------------------------|--------------------------------|
| Beginning balance, December 31, 2010      | —                          | \$—                            |
| Issuance of derivative warrants:          |                            |                                |
| Financing arrangement in Note 4           | 6,154,606                  | 1,083,210                      |
| Other transactions                        | 10,000                     | 1,760                          |
| Exercise or expiration                    | —                          | —                              |
| Change in fair value of warrant liability | —                          | (73,571 )                      |
| Ending balance, September 30, 2011        | 6,164,606                  | \$1,011,399                    |

Changes in the fair value of derivative financial instruments are required to be recorded in income.

The derivative warrants were valued using a Binomial Lattice Option Valuation Technique (“Binomial”). Significant inputs into this technique are as follows:





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|   | Inception Dates        |                    |                       |
|---|------------------------|--------------------|-----------------------|
|   | May 24 and 26,<br>2011 | August 15,<br>2011 | September 30,<br>2011 |
| Fair market value of asset (1)                      | \$0.33                 | \$0.33             | \$0.33                |
| Exercise price                                      | \$0.50                 | \$0.50             | \$0.50                |
| Term (2)  | 5.0 Years              | 5.0 Years          | 4.6--4.9 Years        |
| Implied expected life derived from Binomial (3)     | 4.9 Years              | 4.9 Years          | 4.5--4.8 Years        |
| Volatility range (4)                                | 64.4%--95.8%           | 61.9%--94.7%       | 62.2%--93.6%          |
| Equivalent volatility derived from Binomial (3)     | 76.9%                  | 75.2%              | 75.2%                 |
| Risk-free rate range (5)                            | 0.11%--1.81%           | 0.08%--0.99%       | 0.02%--0.96%          |
| Equivalent risk-free rate derived from Binomial (3) | 0.50%                  | 0.33%              | 0.28%--0.33%          |

(1) The fair market value of the asset was determined using the price paid by the Investors in the Offering. See the paragraph below discussing how the fair market value of the asset varies in Binomial when the contract is subject to down-round financing protection.

(2) The term is the contractual remaining term. For purposes of Binomial, the contractual remaining term is allocated to intervals within which exercise may or may not occur.

(3) The implied expected life and equivalent amounts are derived from Binomial as the averages associated with all iterations that were performed.

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

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

The Warrants and placement agent warrants embody features that result in adjustment to the exercise price when the Company sells common stock or other common stock linked contracts below the \$0.50 exercise price. Since anti-dilution risk is present when the trading market price is below or projected to be below the stated exercise price, a random walk Brownian motion technique was used to estimate the future market price and the probability that the stock price would be below the stated exercise price during the implied expected life of the warrant. These values were used to develop assumptions which were used as inputs in the Binomial model used to value the warrants. A stochastic process is a sequence of events or paths generated by probabilistic laws and Brownian motion is a continuous stochastic process that is widely used in financing for modeling random behavior that evolves over time. At each valuation date, the model is run using monthly steps based upon the following inputs: the current trading market price, the implied expected life of the warrants and the estimated volatility over the implied expected life. The simulation returns the mean stock price (New Price) and the probability of the stock price falling below the exercise price (SPP). These values are used as inputs into the Binomial, since it is assumed a market participant would consider changes in the Company's market price when considering the value to assign to the anti-dilution protection.

NOTE 6. STOCK OPTIONS

In February 2007, IZEA's Board of Directors adopted the 2007 Equity Incentive Plan (the "2007 Plan"). The 2007 Plan allowed the Company to provide options as an incentive for employees and consultants. On May 11, 2011, the 2007 Plan was amended to increase the number available for issuance under the 2007 Plan from 2,313,317 to 4,889,829 shares of Series A common stock. In connection with the reverse merger on May 12, 2011, IZEA canceled all of their outstanding stock options under the 2007 Plan effectively canceling the 2007 Plan. The Company simultaneously issued new options to the same employees under a new 2011 Equity Incentive Plan of IZEA Holdings, Inc. adopted on May 12, 2011 (the "May 2011 Plan"). The Company reserved for issuance an aggregate of 3,500,000 shares of common stock under the May 2011 Plan. The cancellation and replacement of the stock options under the 2007 Plan are accounted for as a modification of the terms of the canceled award. There was no incremental difference required to be recorded in the financial statements since the fair value of the canceled options exceeded the fair value of the options replaced at the date of cancellation and replacement.

IZEA Holdings, Inc.  
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On August 22, 2011, the Company adopted the 2011 B Equity Incentive Plan of IZEA Holdings, Inc. (the "August 2011 Plan") reserving for issuance an aggregate of 3,500,000 shares of common stock under the August 2011 Plan. As of September 30, 2011, no grants have been made under the August 2011 Plan.

Under both the plans, the Board of Directors determines the price to be paid for the shares, the period within which each option may be exercised, and the terms and conditions of each option. The exercise price of the incentive stock options shall be equal to 100% of the fair market value per share of the Company's common stock on the grant date. If an individual owns stock representing more than 10% of the outstanding shares, the price of each share of an incentive stock option shall be 110% of fair market value. The exercise price for nonqualified stock options may be less than fair market value of the stock, as determined by the Board of Directors. Unless otherwise determined by the Board of Directors at the time of grant, the right to purchase shares covered by any options under the 2011 Plan shall vest over the requisite service period as follows: one-fourth of options shall vest one year from the date of grant and the remaining options shall vest monthly, in equal increments over the remaining three-year period. The term of the options is up to 10 years.

A summary of option activity under the 2007 and 2011 Options Plans as of September 30, 2011 and for the nine months then ended is presented below:

2007 Plan

| Options  | Shares       | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining Life<br>(Years) |
|--|--------------|---------------------------------------|---|
| Outstanding at December 31, 2010                     | 69,970       | \$1.10                                | 2.00  |
| Granted  | 3,788,620    | 0.03                                  |   |
| Exercised  | (14,822 )    | 0.03                                  |   |
| Forfeited  | (50,803 )    | 0.03                                  |   |
| Canceled   | (3,792,965 ) | 0.05                                  |   |
| Outstanding at May 12, 2011 (date Plan was canceled) | —            | \$—                                   | —   |

2011 Plan

| Options                           | Shares     | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining Life<br>(Years) |
|-----------------------------------|------------|---------------------------------------|---|
| Outstanding at December 31, 2010  | —          | \$—                                   | —   |
| Granted                           | 4,775,365  | 0.43                                  | —   |
| Exercised                         | (23,885 )  | 0.05                                  | —   |
| Canceled                          | (133,566 ) | 0.08                                  | —   |
| Outstanding at September 30, 2011 | 4,617,914  | \$0.44                                | 6.6   |
| Exercisable at September 30, 2011 | 2,102,500  | \$0.39                                | 5.8   |

During the three months ended September 30, 2011, there were options exercised into 23,885 shares of our common stock for cash proceeds of \$1,194. The intrinsic value of the options exercised during the three months ended September 30, 2011 was \$6,688. There is no aggregate intrinsic value on the exercisable, outstanding options as of September 30, 2011 since the weighted average exercise price exceeded the fair value on such date.

The following tables contain summarized information about nonvested 2007 Plan stock options outstanding at May 12, 2011 and nonvested May 2011 and August 2011 Plan stock options outstanding at September 30, 2011:

IZEA Holdings, Inc.  
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## 2007 Plan

|  | Shares       | Weighted Average<br>Grant Date<br>Fair Value |
|--|--------------|--|
| Nonvested at December 31, 2010                     | 16,851       | \$0.60                                       |
| Granted  | 3,788,620    | 0.03   |
| Vested   | (1,895,797 ) | 0.01   |
| Forfeited  | (50,803 )    | 0.03   |
| Canceled   | (1,858,871 ) | 0.02   |
| Nonvested at May 12, 2011 (date plan was canceled) | —            | \$—  |

## 2011 Plan

|                                 | Shares       | Weighted Average<br>Grant Date<br>Fair Value |
|---------------------------------|--------------|--|
| Nonvested at December 31, 2010  | —            | \$—  |
| Granted                         | 4,775,365    | 0.19   |
| Vested                          | (2,137,700 ) | 0.17   |
| Forfeited                       | (122,251 )   | 0.29   |
| Nonvested at September 30, 2011 | 2,515,414    | \$0.20                                       |

Stock-based compensation expense recognized on awards outstanding during the three and nine months ended September 30, 2011 was \$32,035. Stock-based compensation expense recognized on awards outstanding during the three and nine months ended September 30, 2010 was \$5,192. Future compensation related to nonvested awards of \$280,948 is expected to be recognized over the remaining individual vesting periods for up to five years.

## NOTE 7. RELATED PARTY TRANSACTIONS

During 2006, IZEA entered into a General Services Agreement (“GSA”) with an entity owning 100% of IZEA’s Series B common stock. The GSA consisted of the purchase of certain marketing deliverables and equipment, as well as marketing consulting services. Cash paid to this related party during the nine months ended September 30, 2011 and 2010 was approximately and \$9,169 and \$4,890 respectively. Expenses associated with the GSA were approximately and \$20,568 and \$8,867 for the nine months ended September 30, 2011 and 2010, respectively, and are included in sales and marketing expenses in the accompanying statements of operations. The contract is on a month-to-month basis until terminated by either party.

The amount due to this related party was \$17,526 and \$3,358 at September 30, 2011 and December 31, 2010, respectively.

As part of the Company’s exchange, as more fully discussed in Note 4, the Company sold an aggregate of \$50,000 worth of Units which were sold to the Company’s Chief Executive Officer and an entity under the control of the Chief Executive Officer.

## NOTE 8. LOSS PER COMMON SHARE

Net losses were reported during the three and nine months ended September 30, 2011 and 2010. As such, the Company excluded the impact of its potential common shares related to stock options and warrants of 4,617,914 and

6,167,930, respectively, as of September 30, 2011 in the computation of dilutive earnings per share for these periods as their effect would be anti-dilutive. Potential common shares of 6,969,690 upon conversion of preferred stock were also excluded from diluted loss per share as of September 30, 2011, since they were anti-dilutive. The Company excluded the impact of its potential common shares related to stock options and warrants of 73,470 and 3,324, respectively, as of September 30, 2010 in the computation of dilutive earnings per share for these periods as their effect would be anti-dilutive.

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

General

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

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

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

Company History

IZEA Holdings, Inc. (the “Company” “we” or “us”) was incorporated as a Nevada corporation on March 22, 2010 for the purpose of entering the business of making loans which are fully secured by a first lien on a customer’s automobile. On May 11, 2011, we filed an amendment to our Articles of Incorporation in order to change our name from “Rapid Holdings, Inc.” to “IZEA Holdings, Inc.” On May 11, 2011, our board of directors declared a dividend of an additional 14.28117 shares of common stock on each share of our common stock outstanding on May 11, 2011 with a payment date of May 23, 2011.

On May 12, 2011, we entered into a Share Exchange Agreement (the “Exchange Agreement”) with IZEA, Inc., a privately held Delaware corporation (“IZEA”) and the shareholders of IZEA. Upon closing of the transaction contemplated under the Exchange Agreement, on May 12, 2011, the shareholders of IZEA transferred all of the issued and outstanding capital stock of IZEA to us in exchange for shares of our common stock. Such exchange caused IZEA to become our wholly-owned subsidiary. Immediately following the closing of the exchange, under an Agreement of

Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, the Company transferred all of its pre-exchange assets and liabilities to a wholly-owned subsidiary, RTL Holdings, Inc. ("SplitCo") and thereafter, pursuant to a stock purchase agreement, transferred all of the outstanding capital stock of SplitCo to Anthony Barron, our former officer and director, in exchange for the cancellation of shares of our common stock he owned. Upon closing of the exchange, the business of IZEA became our business.

IZEA, Inc. was incorporated in the state of Florida in February 2006 and reincorporated in the state of Delaware in September 2006.

#### Company Overview

We are a leader in social media sponsorships ("SMS"), a rapidly growing segment within social media that connects social media publishers with advertisers. We accomplish this through our five online marketplaces: WeReward, SponsoredTweets, SocialSpark, PayPerPost and InPostLinks. Our customers include a wide range of small and large businesses, including Fortune



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500 companies, as well as advertising agencies. We generate our revenue through the sale of social media sponsorships to our customers. We fulfill these sponsorships through our marketplace platforms connecting social media publishers such as bloggers, tweeters and mobile application users.

## Results of Operations for Three Months Ended September 30, 2011 Compared to September 30, 2010

|   | Three Months Ended September 30, |              |              |          |    |
|---|----------------------------------|--------------|--------------|----------|----|
|   | 2011                             | 2010         | \$ Change    | % Change |    |
| Revenue                                   | \$ 1,052,675                     | \$ 823,030   | \$ 229,645   | 27.9     | %  |
| Cost of sales                             | 483,729                          | 442,832      | 40,897       | 9.2      | %  |
| Gross profit                              | 568,946                          | 380,198      | 188,748      | 49.6     | %  |
| Operating expenses:                       |                                  |              |              |          |    |
| General and administrative                | 1,950,248                        | 884,692      | 1,065,556    | 120.4    | %  |
| Sales and marketing                       | 249,888                          | 180,586      | 69,302       | 38.4     | %  |
| Total operating expenses                  | 2,200,136                        | 1,065,278    | 1,134,858    | 106.5    | %  |
| Loss from operations                      | (1,631,190                       | ) (685,080   | ) (946,110   | ) 138.1  | %  |
| Other income (expense):                   |                                  |              |              |          |    |
| Interest expense, net                     | (3,964                           | ) (9,058     | ) 5,094      | (56.2    | )% |
| Change in fair value of warrant liability | 43,780                           | —            | 43,780       | —        | %  |
| Other income (expense), net               | —                                | —            | —            | —        | %  |
| Total other income (expense)              | 39,816                           | (9,058       | ) 48,874     | (539.6   | )% |
| Net loss                                  | \$ (1,591,374                    | ) \$(694,138 | ) \$(897,236 | ) 129.3  | %  |

## Revenues

Revenues for the three months ended September 30, 2011 increased by \$229,645, or 27.9%, compared to the same period in 2010. The increase was primarily attributable to growth of our customer base through our expanded sales force and through budget increases among existing customers in our product lines.

## Cost of Sales and Gross Profit

Cost of sales for the three months ended September 30, 2011 increased by \$40,897, or 9.2%, compared to the same period in 2010. The increase was primarily attributable to growth in revenue and related increase in cost of sales. Cost of sales is comprised primarily of the amounts we pay to social media publishers in the IZEA online network. Cost of sales represented 46% of revenues for the three months ended September 30, 2011 compared to 54% of revenues for the same period in 2010.

Gross profit for the three months ended September 30, 2011 increased by \$188,748, or 49.6%, compared to the same period in 2010. Our gross margin increased to 54% for the three months ended September 30, 2011 as compared to 46% for the same period in 2010. The gross margin increase was primarily attributable to increased fees charged to manage advertising campaigns and inactivity fees, resulting in revenue for the three months ended September 30, 2011 of approximately \$85,000.

## Operating Expenses

Operating expenses consist of general and administrative and sales and marketing expenses. Total operating expenses for the three months ended September 30, 2011 increased by \$1,134,858, or 106.5%, compared to the same period in 2010. The increase was primarily attributable to increased payroll and operating expenses, costs of being a public company and increases in sales and marketing expenses.

General and administrative expenses consist primarily of payroll, general operating costs, public company costs, facilities costs, insurance, depreciation, professional fees and investor relations fees. General and administrative expenses for the three months ended September 30, 2011 increased by \$1,065,556 or 120.4%, compared to the same period in 2010. The increase was primarily attributable to expenses incurred for investor relations services. We paid \$1,190,000 and issued 500,000 shares of common stock valued at \$165,000 for investor relation services in August 2011 of which \$677,500 was expensed in September 2011 and the remaining \$677,500 will be expensed in the fourth quarter of 2011.

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Sales and marketing expenses consist primarily of advertising, general marketing, public relations and trade show expenses. Sales and marketing expenses for the three months ended September 30, 2011 increased by \$69,302 or 38.4%, compared to the same period in 2010. The increase was primarily attributable to increased trade show expenses.

## Other Income (Expense)

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

Interest expense during the three months ended September 30, 2011 decreased by \$5,094, or 56.2%, compared to the same period in 2010 as a result of the overall reduction in our notes payable to the bank through scheduled principal payments.

We recognized other income for a change in fair value of our warrant liability of \$43,780 during the three months ended September 30, 2011 related to warrants issued in connection with a Financing Arrangement as further discussed below.

## Net Loss

Net loss for the three months ended September 30, 2011 was \$1,591,374 compared to a net loss of \$694,138 for the same period in 2010. As discussed above, although gross profit increased over the prior quarter due to increased revenue and interest expense declined as a result of the conversion of debt in 2010, this was exceeded by an increase in operating expenses attributable to increased headcount, investor relations and other sales and marketing expenses.

## Results of Operations for Nine Months Ended September 30, 2011 Compared to September 30, 2010

|   | Nine Months Ended September 30, |                |              |          |    |
|---|---------------------------------|----------------|--------------|----------|----|
|   | 2011                            | 2010           | \$ Change    | % Change |    |
| Revenue                                   | \$2,821,354                     | \$2,249,891    | \$571,463    | 25.4     | %  |
| Cost of sales                             | 1,306,463                       | 1,192,043      | 114,420      | 9.6      | %  |
| Gross profit                              | 1,514,891                       | 1,057,848      | 457,043      | 43.2     | %  |
| Operating expenses:                       |                                 |                |              |          |    |
| General and administrative                | 3,883,887                       | 2,570,601      | 1,313,286    | 51.1     | %  |
| Sales and marketing                       | 526,112                         | 404,272        | 121,840      | 30.1     | %  |
| Total operating expenses                  | 4,409,999                       | 2,974,873      | 1,435,126    | 48.2     | %  |
| Loss from operations                      | (2,895,108                      | ) (1,917,025   | ) (978,083   | ) 51.0   | %  |
| Other income (expense):                   |                                 |                |              |          |    |
| Interest expense, net                     | (17,060                         | ) (60,654      | ) 43,594     | (71.9    | )% |
| Change in fair value of warrant liability | 73,571                          | —              | 73,571       | —        | %  |
| Other income (expense), net               | —                               | (276           | ) 276        | (100.0   | )% |
| Total other income (expense)              | 56,511                          | (60,930        | ) 117,441    | (192.7   | )% |
| Net loss                                  | \$(2,838,597                    | ) \$(1,977,955 | ) \$(860,642 | ) 43.5   | %  |

## Revenues

Revenues for the nine months ended September 30, 2011 increased by \$571,463, or 25.4%, compared to the same period in 2010. The increase was primarily attributable to growth of our customer base through our expanded sales force and through budget increases among existing customers in all of our product lines.

Cost of Sales and Gross Profit

Cost of sales for the nine months ended September 30, 2011 increased by \$114,420, or 9.6%, compared to the same period in 2010. The increase was primarily attributable to the growth in advertising campaigns requiring the purchase of appropriate levels of sponsorships from publishers. Cost of sales is comprised primarily of the amounts we pay to social media publishers in the IZEA online network. Cost of sales represented 46% of revenues for the nine months ended September 30, 2011 compared to 53% of revenues for the same period in 2010.

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Gross profit for the nine months ended September 30, 2011 increased by \$457,043, or 43.2%, compared to the same period in 2010. Our gross margin increased to 54% for the nine months ended September 30, 2011 as compared to 47% for the same period in 2010. The gross margin increase was primarily attributable to increase in fees charged to manage advertising campaigns and inactivity fees, resulting in revenue for the nine months ended September 30, 2011 of approximately \$218,000.

### Operating Expenses

Operating expenses consist of general and administrative, and sales and marketing expenses. Total operating expenses for the nine months ended September 30, 2011 increased by \$1,435,126, or 48.2%, compared to the same period in 2010. The increase was primarily attributable to increased payroll and operating expenses, costs of being a public company and increases in sales and marketing expenses.

General and administrative expenses consist primarily of payroll, general operating costs, public company costs, facilities costs, insurance, depreciation, professional fees, and investor relations fees. General and administrative expenses for the nine months ended September 30, 2011 increased by \$1,313,286 or 51.1%, compared to the same period in 2010. The increase was primarily attributable to increased payroll, costs of being a public company, investor relations costs and operating expenses due to increased activity in our platforms. We paid \$1,190,000 and issued 500,000 shares of common stock valued at \$165,000 in August 2011 for investor relation services of which \$677,500 was expensed in September 2011 and the remaining \$677,500 will be expensed in the fourth quarter of 2011.

Sales and marketing expenses consist primarily of compensation for sales and marketing and related support resources, sales commissions and trade show expenses. Sales and marketing expenses for the nine months ended September 30, 2011 increased by \$121,840 or 30.1%, compared to the same period in 2010. The increase was also attributable to marketing of our increased focus on our SocialSpark, SponsoredTweets and WeReward platforms.

### Other Income (Expense)

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

Interest expense during the nine months ended September 30, 2011 decreased by \$43,594 compared to the same period in 2010 as a result of the conversion of \$1,444,800 of related party notes payable in May 2010 and principal payments made on our note payable to the bank.

We recognized other income for a change in fair value of our warrant liability of \$73,571 during the nine months ended September 30, 2011 related to warrants issued in connection with a Financing Arrangement as further discussed below.

### Net Loss

Net loss for the nine months ended September 30, 2011 was \$2,838,597 which increased from the net loss of \$1,977,955 for the same period in 2010. As discussed above, although gross profit increased over the prior quarter due to increased revenue and interest expense declined as a result of the conversion of debt in 2010, this was exceeded by an increase in operating expenses attributable to increased headcount, public company and investor relations costs, and other sales and marketing expenses.

### Liquidity and Capital Resources

Our cash position was \$1,095,103 as of September 30, 2011 as compared to \$1,503,105 as of December 31, 2010, a decrease of \$408,002. Significant losses from operations have been incurred since inception and there is an accumulated deficit of \$16,990,789 as of September 30, 2011.

To date we have financed our operations through internally generated revenue from operations, the sale of our equity and the issuance of notes and loans from shareholders. From May until August 2011, we raised an aggregate of \$3,330,000 through the sale of 330 units consisting of either (i) 30,303 shares of our common stock, or (ii) one share of our recently designated Series A Preferred Stock, which is convertible into 30,303 shares of common stock, plus a five-year warrant to purchase 18,182 shares of common stock for \$9,091 or \$0.50 per linked common share (the "May 2011 Offering"). Of the gross proceeds received, (i) \$500,000 was received under a promissory note that was contractually exchangeable into 50 units under the May 2011 Offering, and (ii) \$50,000 was received for the purchase of 5 units from our Chief Executive Officer. As a result of the offering, investors who purchased 230 units elected to receive preferred stock and investors who purchased 103 Units elected to receive common stock. Accordingly, we issued (i) 3,121,210 shares of common stock, (ii) 230 shares of Series A Preferred Stock, which are linked

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by conversion to 6,969,690 shares of common stock, and (iii) 333 Warrant Contracts that are linked by exercise to an aggregate of 6,054,606 shares of common stock. Direct expenses associated with the offering amounted to \$290,127 and included (i) placement agent, legal and other fees for cash of \$272,527, and (ii) a warrant to the placement agent to purchase 100,000 shares of common stock under the same terms and conditions as the warrants. Accordingly, net cash proceeds from the May 2011 Offering amounted to \$3,057,473.

We entered into registration rights agreements (the "Registration Rights Agreement") with the investors in the May 2011 Offering (the "Investors"), pursuant to which we agreed to file a "resale" registration statement with the SEC covering the shares of common stock issuable upon conversion of Series A Preferred Stock and the shares of common stock underlying the Warrants within six (6) months after the final closing date of the May 2011 Offering (i.e. February 15, 2012) (the "Filing Date"). We agreed to use our reasonable best efforts to have the registration statement declared effective within nine (9) months after the final closing date of the May 2011 Offering (i.e. May 15, 2012) (the "Effectiveness Deadline") and to maintain the effectiveness of the registration statement from the effective date until all securities have been sold or are otherwise able to be sold pursuant to Rule 144 without restriction or limitation. Pursuant to the Registration Rights Agreement, we are obligated to pay to Investors a fee of 1% per month of the Investors' investment, payable in cash, for every thirty (30) day period up to a maximum of 6%, (i) following the required Filing Date that the registration statement has not been filed and (ii) following the required Effectiveness Deadline that the registration statement has not been declared effective; provided, however, that we shall not be obligated to pay any such liquidated damages if we are unable to fulfill our registration obligations as a result of rules, regulations, positions or releases issued or actions taken by the SEC pursuant to its authority with respect to "Rule 415", provided we register at such time the maximum number of shares of common stock permissible upon consultation with the staff of the SEC and provided further that we will not be obligated to pay liquidated damages at any time following the one year anniversary of the Final Closing Date (as defined in the Registration Rights Agreements) of the May 2011 Offering.

On May 24, 2011, we entered into an investor relations agreement with a consulting company to provide investor relations services for two months beginning September 1, 2011 (as amended). We paid \$1,190,000 in cash with proceeds from the May 2011 Offering and issued 500,000 shares of our common stock valued at \$165,000 based on \$0.33 per common share in August 2011.

On July 15, 2008, we entered into a \$1,000,000 Loan and Security Agreement ("Note Payable") with Silicon Valley Bank, with an interest rate of 8% per annum, payable monthly. Interest only was payable through December 31, 2008. Repayment of principal is due in thirty-six consecutive equal monthly installments beginning in January 2009, or approximately \$333,333 per year through December 31, 2011. The Note Payable is secured by all assets of IZEA. The principal balance outstanding on the note payable was \$83,333 at September 30, 2011 and is required to be repaid in full during fiscal 2011.

Although our net revenues and proceeds from the May 2011 Offering are currently sufficient to fund our operating expenses until September 30, 2012, we may be required to raise additional funds in the future particularly if we are unable to generate positive cash flow as a result of our operations or require additional capital to expand our operations. Therefore our future operations may be dependent on our ability to secure additional financing. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. The inability to obtain additional capital may restrict our ability to grow and may reduce our ability to continue

to conduct business operations. If we are unable to obtain additional financing, we may have to curtail our marketing and development plans and possibly cease our operations.

Our ability to continue as a going concern is dependent upon attaining profitable operations through achieving revenue growth targets while lowering other expense levels.

Cash used for operating activities was \$3,163,169 during the nine months ended September 30, 2011 and was primarily a result of our net loss during the period of \$2,838,597. Cash provided by financing activities was \$2,790,916 during the nine months ended September 30, 2011 primarily as a result of net proceeds of \$3,057,473 received from the issuance of common and preferred stock and warrants and exchange of promissory notes in a financing arrangement as further discussed above offset by principal payments of \$268,156 on our bank note payable and capital leases.



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### Off Balance Sheet Arrangements

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

### Critical Accounting Policies and Use of Estimates

Accounts receivable are customer obligations due under normal trade terms and are typically considered collectible since most customers are not bound by contract and are required to fund us for all the costs of an “opportunity”, defined as an order created by an advertiser for a blogger to write about the advertiser’s product. If a portion of the account balance is deemed uncollectible, we will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. Management determines the collectibility of accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. We have not recorded a reserve for doubtful accounts at December 31, 2010 and September 30, 2011.

Revenue consists of content creator fees, service fees to establish and maintain advertiser accounts, and listing fees associated with advertiser “opportunities”. Revenue is recognized when opportunities are posted on our websites and when related payments are made to the content creators after their content has been listed for the requisite period. Customers prepay for the Company’s services, which are recorded as unearned revenue. We recognize revenue in accordance with Accounting Standards Codification on Principal Agent Considerations. We record revenue on the gross amount earned since we generally are the primary obligor in the arrangement, establish the pricing and determine the service specifications.

Stock based compensation is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee’s requisite service period. We estimate the fair value of each stock option as of the date of grant using the Black-Scholes-Merton pricing model. Options vest ratably over four years with one-fourth of options vesting one year from the date of grant and the remaining options vesting monthly, in equal increments over the remaining three-year period and generally have ten-year contract lives. We estimate the volatility of our common stock at the date of grant based on the volatility of comparable peer companies which are publicly traded. We determine the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. We use the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. We have never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. In addition, we separate the grants into homogeneous groups and analyzes the assumptions for each group.

We account for derivative instruments in accordance with FASB ASC 815, Derivatives and Hedging, which requires additional disclosures about the our objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements. We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt and equity instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

We record a beneficial conversion feature (“BCF”) related to the issuance of convertible debt and equity instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in

connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation are recognized a) for convertible debt as interest expense over the term of the debt, using the effective interest method or b) for preferred stock as dividends at the time the stock first becomes convertible.

#### Recent Accounting Pronouncements

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

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ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISK

N/A

ITEM 4 – CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2011. Based on the results of that evaluation, our management concluded that our disclosure controls and procedures were effective as of September 30, 2011.

Changes in Internal Control over Financial Reporting

For the quarter ended June 30, 2011, management concluded that our internal controls over financial reporting were not effective and resulted in a material weakness due to the incompleteness of our assessment of the accounting impact of the issuance of complex and non-standard debt and equity instruments in May 2011. To address the material weakness related to the accounting and disclosure for complex and non-standard debt and stockholders' equity transactions, we implemented the use of new software and research tools and retained the services of qualified individuals who can comprehensively review the accounting and disclosure implications of such transactions on a timely basis.

There were no other changes in our internal control over financial reporting identified in connection with the evaluation (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is, however, subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe would or could have, individually or in the aggregate, a material adverse effect on us.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

On August 1, 2011, we issued 500,000 shares of common stock in consideration for investor relations services. The shares were not registered under the Securities Act or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Rule 506 of Regulation D under the Securities Act and corresponding provisions of state securities laws.

On August 15, 2011, we issued an aggregate of 5 units from the May 2011 Offering, each unit consisting of 30,303 shares of common stock, and a warrant to purchase 18,182 shares of common stock for aggregate gross proceeds of \$50,000. In connection with the aforesaid issuance and sale, we issued 151,515 share of common stock along with warrants to purchase 90,910 shares of the common stock, with the same terms as the warrants issued to the investors in the May 2011 Offering. The units were all sold and issued only to “accredited investors,” as such term is defined in the Securities Act of 1933, as amended (the “Securities Act”), were not registered under the Securities Act or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Rule 506 of Regulation D under the Securities Act and corresponding provisions of state securities laws.

On September 2, 2011, we issued 23,885 shares of our common stock upon exercise of a stock option for cash proceeds of \$1,194. The shares were not registered under the Securities Act or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) under the Securities Act and corresponding provisions of state securities laws.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4 - (REMOVED AND RESERVED)

N/A

ITEM 5 - OTHER INFORMATION

(a) Form 8-K Information

On August 22, 2011, we adopted the 2011 B Equity Incentive Plan of IZEA Holdings, Inc. (the “August 2011 Plan”) reserving for issuance an aggregate of 3,500,000 shares of common stock under the August 2011 Plan. A copy of the August 2011 Plan is attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q and is hereby incorporated by reference.

On July 30, 2011, we entered into an employment agreement with Ryan Schram pursuant to which Mr. Schram will serve as our Chief Marketing Officer. Pursuant to the employment agreement with Mr. Schram, Mr. Schram will serve as our Chief Marketing Officer until December 31, 2014 subject to renewal in consideration for an annual salary of \$230,000. Mr. Schram also received a signing bonus of \$12,000 and will be eligible for a bonus and override bonus based on meeting certain performance indicators set forth in the employment agreement. The employment agreement also provides that Mr. Schram shall be an observer of our board of directors and that under certain conditions shall either be appointed or nominated to the board of directors.

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We also issued Mr. Schram an option to purchase 500,000 shares of common stock at an exercise price of \$0.50 per share, which will vest in equal monthly installments over a period of four years beginning one year from the date of issuance. Mr. Schram will also be eligible for to receive, at the discretion of the board, option grants to purchase up to 500,000 shares of common stock, vesting in equal monthly installments, each year starting December 31, 2012, based on meeting the performance indicators set forth in the employment agreement. If terminated for any reason other than death, disability or cause, or if Mr. Schram resigns for good reason (as defined in the employment agreement), Mr. Schram shall be entitled to a severance of 6 months current salary and bonus and override bonus as in effect on the date of termination. A change of control, under which Mr. Schram fails to retain his title and responsibilities, will be deemed good reason under the employment agreement.

The foregoing summary is subject to and qualified in its entirety by the employment agreement attached as Exhibit 10.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

(b) Director Nomination Procedures

We do not have a standing nominating committee nor are we required to have one. We do not have any established procedures by which security holders may recommend nominees to our Board of Directors, however, any suggestions on directors, and discussions of board nominees in general, is handled by the entire Board of Directors.

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ITEM 6 – EXHIBITS

- 10.1 2011 B Equity Incentive Plan of IZEA Holdings, Inc.
- 10.2 Employment Agreement between IZEA Holdings, Inc. and Ryan Schram as of July 30, 2011
- 31.1 Section 302 Certification of Principal Executive Officer
- 31.2 Section 302 Certification of Principal Financial Officer
- 32.1\* Section 906 Certification of Principal Executive Officer
- 32.2\* Section 906 Certification of Principal Financial Officer
- 101\*\* The following materials from IZEA Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) Consolidated Statement of Stockholders' Deficit, (iv) the Consolidated Statements of Cash Flow, and (iv) Notes to Consolidated Financial Statements tagged as blocks of text.

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

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IZEA HOLDINGS, INC.  
a Nevada corporation

November 8, 2011

By: /s/ Edward Murphy  
Edward Murphy  
President, Chief Executive Officer,  
and a Director  
(Principal Executive Officer)

November 8, 2011

By: /s/ Donna Mackenzie  
Donna Mackenzie  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting  
Officer)

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