

Accelerize Inc.  
Form 10-Q  
May 10, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **March 31, 2016**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

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

Commission File Number: **000-52635**

**ACCELERIZE INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-3858769**

(I.R.S. Employer Identification No.)

**20411 SW BIRCH STREET, SUITE 250**

**NEWPORT BEACH**

**CALIFORNIA 92660**

(Address of principal executive offices)

**(949) 548 2253**

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Indicate by check mark whether the registrant is 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  
Non-accelerated filer

Accelerated filer

Smaller reporting company

(Do not check if 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

The number of shares outstanding of the registrant's Common Stock, \$0.001 par value per share, as of May 9, 2016, was 65,059,540.

When used in this quarterly report, the terms "Accelerize," "the Company," "we," "our," and "us" refer to Accelerize Inc., a Delaware corporation.



## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This quarterly report on Form 10-Q contains certain forward-looking statements. Forward-looking statements may include our statements regarding our goals, beliefs, strategies, objectives, plans, including product and service developments, future financial conditions, results or projections or current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. For example, when we discuss our expectations that our revenues will increase in 2016, our expansion plans, our new products, our intentions to grow revenues by investing in sales and marketing efforts, our spending on research and development, training, and support personnel, we are using forward-looking statements. These statements are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those contemplated by the forward-looking statements. These factors include, but are not limited to, our ability to implement our strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. The business and operations of Accelerize Inc. are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Further information on potential factors that could affect our business is described under "Item 1A. Risk Factors" in our annual report on Form 10-K as filed with the Securities and Exchange Commission, or the SEC, on March 17, 2016. Readers are also urged to carefully review and consider the various disclosures we have made in this report and in our annual report on Form 10-K.

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**ACCELERIZE INC.**

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

ACCELERIZE INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash	\$1,081,221	\$908,095
Accounts receivable, net of allowance for bad debt of \$416,076 and \$395,147, respectively	2,093,909	1,833,007
Prepaid expenses and other current assets	217,678	239,921
Total current assets	3,392,808	2,981,023
Property and equipment, net of accumulated depreciation of \$2,113,350 and \$1,854,351, respectively	2,162,642	1,956,864
Other assets	115,547	124,882
Total assets	\$5,670,997	\$5,062,769
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$2,414,458	\$2,236,750
Deferred revenues	19,637	10,436
Line of credit, net of deferred financing cost of \$28,193 and \$36,559, respectively	4,544,030	4,598,441
Other short term liabilities	625,000	-
Total liabilities	7,603,125	6,845,627
Stockholders' Deficit		
Common stock; \$0.001 par value; 100,000,000 shares authorized; 65,069,327 shares issued and outstanding	65,068	65,068
Additional paid-in capital	23,881,525	23,440,366
Accumulated deficit	(25,849,853)	(25,266,612)
Accumulated other comprehensive loss	(28,868 )	(21,680 )

Total stockholders' deficit	(1,932,128 )	(1,782,858 )
Total liabilities and stockholders' deficit	\$5,670,997	\$5,062,769

See Notes to Unaudited Condensed Consolidated Financial Statements.

## ACCELERIZE INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three-month periods ended	
	March 31, 2016	2015
Revenues:	\$5,864,018	\$5,199,662
Cost of revenue	1,932,123	1,317,766
Gross profit	3,931,895	3,881,896
Operating expenses:		
Research and development	1,030,456	875,382
Sales and marketing	992,878	2,133,924
General and administrative	2,288,712	2,454,446
Total operating expenses	4,312,046	5,463,752
Operating loss	(380,151 )	(1,581,856 )
Other income (expense):		
Other income	9,459	32,978
Other expense	(212,549 )	(45,344 )
Total other (expenses)	(203,090 )	(12,366 )
Net loss	\$(583,241 )	\$(1,594,222 )
Net loss per share:		
Basic	\$(0.01 )	\$(0.03 )
Diluted	\$(0.01 )	\$(0.03 )
Basic weighted average common shares outstanding	65,069,327	62,831,019
Diluted weighted average common shares outstanding	65,069,327	62,831,019

See Notes to Unaudited Condensed Consolidated Financial Statements.



ACCELERIZE INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three-month periods ended	
	March 31, 2016	2015
Net loss:	\$ (583,241)	\$ (1,594,222)
Foreign currency translation loss	(7,188 )	(6,543 )
Total other comprehensive loss	(7,188 )	(6,543 )
Comprehensive loss	\$ (590,429)	\$ (1,600,765)

See Notes to Unaudited Condensed Consolidated Financial Statements.

## ACCELERIZE INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three-month periods ended	
	March 31, 2016	2015
Cash flows from operating activities:		
Net loss	\$(583,241 )	\$(1,594,222 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	264,080	403,021
Amortization of debt discount	138,366	7,550
Provision for bad debt	20,929	(196,305 )
Fair value of options	441,159	636,667
Changes in operating assets and liabilities:		
Accounts receivable	(281,831 )	(751 )
Prepaid expenses	22,243	(14,373 )
Accounts payable and accrued expenses	178,075	461,045
Deferred revenues	9,201	(131,308 )
Other assets	9,418	6,174
Net cash provided by (used in) operating activities	218,399	(422,502 )
Cash flows from investing activities:		
Capitalized software for internal use	(475,000 )	(177,424 )
Capital expenditures	-	(44,947 )
Proceeds from sale of assets	4,692	-
Net cash used in investing activities	(470,308 )	(222,371 )
Cash flows from financing activities:		
Proceeds from line of credit	-	1,000,000
Repayment of line of credit	(62,777 )	-
Proceeds from loan	625,000	-
Payment of financing costs	(130,000 )	-
Net proceeds from exercise of options and warrants	-	9,586
Net cash provided by financing activities	432,223	1,009,586
Effect of exchange rate changes on cash	(7,188 )	(6,543 )
Net increase in cash	173,126	358,170
Cash, beginning of period	908,095	1,130,667
Cash, end of period	\$1,081,221	\$1,488,837

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Supplemental disclosures of cash flow information:

Cash paid for interest	\$212,549	\$45,005
Cash paid for income taxes	\$-	\$-

Non-cash investing and financing activities:

Fair value of warrants issued in connection with line of credit	\$-	\$37,289
Capital expenditure included in accounts payable	\$3,762	\$35,448

See Notes to Unaudited Condensed Consolidated Financial Statements.

**ACCELERIZE INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1: ORGANIZATION AND DESCRIPTION OF BUSINESS**

Accelerize Inc., a Delaware corporation, incorporated on November 22, 2005, owns and operates CAKE, a Software-as-a-Service, or SaaS, platform providing online tracking and analytics solutions for advertisers and online marketers.

The Company provides software solutions for businesses interested in expanding their online advertising spend.

The condensed consolidated balance sheet presented as of December 31, 2015 has been derived from our audited consolidated financial statements. The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted pursuant to those rules and regulations, but we believe that the disclosures are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with the annual financial statements and notes for the year ended December 31, 2015 included in our Annual Report on Form 10-K filed with the SEC on March 17, 2016. In the opinion of management, all adjustments, consisting of normal, recurring adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results of operations for the three-month period ended March 31, 2016 are not necessarily indicative of the results for the year ending December 31, 2016.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the results of operations of Cake Marketing UK Ltd., or the Subsidiary. All material intercompany accounts and transactions between the Company and its Subsidiary have been eliminated in consolidation.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates

The preparation of unaudited condensed consolidated 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 reporting amounts of revenues and expenses during the reported period. Actual results will differ from those estimates. Included in these estimates are assumptions about collection of accounts receivable, useful life of fixed assets, and assumptions used in Black-Scholes-Merton, or BSM, valuation methods, such as expected volatility, risk-free interest rate, and expected dividend rate.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less when purchased, to be cash equivalents.

Accounts Receivable

The Company's accounts receivable are due primarily from advertisers and marketers. Collateral is currently not required. The Company also maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make payments. The Company periodically reviews these estimated allowances, including an analysis of the customers' payment history and creditworthiness, the age of the trade receivable balances and current economic conditions that may affect a customer's ability to make payments as well as historical collection trends for its customers as a whole. Based on this review, the Company specifically reserves for those accounts deemed uncollectible or likely to become uncollectible. When receivables are determined to be uncollectible, principal amounts of such receivables outstanding are deducted from the allowance.

	March	December
	31,	31,
	2016	2015

Allowance for doubtful accounts	\$416,076	\$395,147
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### Concentration of Credit Risks

The Company is subject to concentrations of credit risk primarily from cash and cash equivalents and accounts receivable.

The Company's cash and cash equivalents accounts are held at a financial institution and are insured by the Federal Deposit Insurance Corporation, or the FDIC, up to \$250,000. During the three-month period ended March 31, 2016, the Company has reached bank balances exceeding the FDIC insurance limit. To reduce its risk associated with the failure of such financial institutions, the Company periodically evaluates the credit quality of the financial institution in which it holds deposits.

The Company's accounts receivable are due from customers, generally located in the United States, Europe, Asia, and Canada. None of the Company's customers accounted for more than 10% of its accounts receivable at March 31, 2016 or December 31, 2015. The Company does not require any collateral from its customers.

### Revenue Recognition

The Company recognizes revenue on arrangements in accordance with ASC Topic 605, Revenue Recognition. Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the resulting receivable is reasonably assured.

The Company's SaaS revenues are generated from implementation and training fees and a monthly license fee, supplemented by per transaction fees paid by customers for monthly platform usage. The initial term of the customer contract is generally one year with one of two general cancellation policies. Each party may cancel the contract within the initial period or after the initial period, with 30-days' prior notice. The Company does not provide any general right of return for its delivered items. Services associated with the implementation and training fees have standalone value to the Company's customers, as there are third-party vendors who offer similar services to the Company's services. Accordingly, they qualify as separate units of accounting. The Company allocates a fair value to each element deliverable at the recognition date and recognizes such value when the services are provided. The Company bases the fair value of the implementation and training fees on third-party evidence and the monthly license fee on vendor-specific objective evidence. Fees charged by third-party vendors for implementation and training services do not vary significantly from the fees charged by the Company. Services associated with implementation and training fees are generally rendered within a month from the initial contract date. The value attributed to the monthly license fees as well as the fees associated with monthly transaction-based platform usage are recognized in the corresponding period.

### Product Concentration

The Company generates its revenues from software licensing, usage, and related transaction fees.

### Fair Value of Financial Instruments

The Company accounts for assets and liabilities measured at fair value on a recurring basis in accordance with ASC Topic 820, Fair Value Measurements and Disclosures, or ASC 820. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

### *Additional Disclosures Regarding Fair Value Measurements*

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and lines of credit approximate their fair value due to the short term maturity of these items.

Advertising

The Company expenses advertising costs as incurred.

	Three-month periods ended,	
	March	March
	31,	31,
	2016	2015
Advertising expense	\$37,326	\$151,497

Income Taxes

Income taxes are accounted for in accordance with the provisions of ASC Topic 740, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized, but no less than quarterly.

Foreign Currency Translation

The Company's reporting currency is U.S. Dollars. The functional currency of the Company's Subsidiary in the United Kingdom is British Pounds. The translation from British Pounds to U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using the average exchange rate in effect during the period. The resulting translation adjustments are recorded as a component of Accumulated Other Comprehensive Income (Loss). Foreign currency translation gains and losses arising from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are included in the unaudited condensed consolidated statements of operations.





### Software Development Costs

Costs incurred in the research and development of software products and significant upgrades and enhancements thereto during the preliminary project stage and the post-implementation operation stage are expensed as incurred. Costs incurred for maintenance and relatively minor upgrades and enhancements are expensed as incurred. Costs associated with the application development stage of new software products and significant upgrades and enhancements thereto are capitalized when 1) management implicitly or explicitly authorizes and commits to funding a software project and 2) it is probable that the project will be completed and the software will be used to perform the function intended. The Company capitalized internal-use software development costs of approximately \$475,000 during the three-month period ended March 31, 2016. The Company amortizes such costs once the new software products and significant upgrades and enhancements are completed. The unamortized internal-use software development costs amounted to approximately \$1,834,000 and \$1,548,000 at March 31, 2016 and December 31, 2015, respectively. The Company's amortization expenses associated with capitalized software development costs amounted to approximately \$189,000 during the three-month period ended March 31, 2016. Amortization of internal-use software is reflected in cost of revenues.

### Share-Based Payment

The Company accounts for stock-based compensation in accordance with ASC Topic 718, Compensation-Stock Compensation, or ASC 718. Under the fair value recognition provisions of this topic, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, which is the vesting period.

The Company has elected to use the BSM option-pricing model to estimate the fair value of its options, which incorporates various subjective assumptions including volatility, risk-free interest rate, expected life, and dividend yield to calculate the fair value of stock option awards. Compensation expense recognized in the statements of operations is based on awards ultimately expected to vest and reflects estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

### Segment Reporting

The Company generated revenues from one source, its SaaS business, during the three-month periods ended March 31, 2016 and 2015. The Company's chief operating decision maker evaluates the performance of the Company based upon revenues and expenses by functional areas as disclosed in the Company's statements of operations.

Recent Accounting Pronouncements

The Company applied ASU 2015-03: Interest – Imputation of Interest, which simplifies the presentation of debt issuance costs, and netted debt issue costs previously reported as assets with the related liability for presentation purposes. Other accounting pronouncements have been issued but deemed by management to be outside the scope of relevance to the Company.

Basic and Diluted Earnings Per Share

Basic earnings per share are calculated by dividing income available to stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share are computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise of stock options and warrants (calculated using the modified-treasury stock method).

	Three-month periods ended	
	March 31, 2016	2015
Numerator:		
Net loss	\$ (583,241 )	\$ (1,594,222 )
Denominator:		
Denominator for basic earnings per share-weighted average shares	65,069,327	62,831,019
Effect of dilutive securities-when applicable:		
Stock options	-	-
Warrants	-	-
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions	65,069,327	62,831,019
Loss per share:		
Basic	\$ (0.01 )	\$ (0.03 )
Diluted	\$ (0.01 )	\$ (0.03 )
Weighted-average anti-dilutive common share equivalents	18,869,637	19,752,825

### Property and Equipment

Property and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives of three years. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized.

Property and equipment consist of the following at:

	March 31, 2016	December 31, 2015
Internal use software costs	\$ 3,201,209	\$ 2,726,209
Computer equipment and software	556,887	563,892

Office furniture and equipment	220,967	222,061
Leasehold improvements	296,930	299,053
	4,275,992	3,811,215
Accumulated depreciation	(2,113,350)	(1,854,351)
	\$2,162,642	\$1,956,864

	Three-month periods ended	
	March 31,	March 31,
	2016	2015
Depreciation expense	\$73,554	\$72,502
Amortization expense on internal software	\$189,360	\$163,854

During the three-month period ended March 31, 2016, the Company sold approximately \$10,000 in computer equipment with a net book value of approximately \$5,000 for proceeds of approximately \$5,000.

**NOTE 3: PREPAID EXPENSES**

At March 31, 2016 and December 31, 2015, the Company's prepaid expenses consisted primarily of prepaid insurance and tradeshow costs.

**NOTE 4: DEFERRED REVENUES**

The Company's deferred revenues consist of prepayments made by certain of the Company's customers and undelivered implementation and training fees. The Company decreases the deferred revenues by the amount of the services it renders to such clients when provided.

	March 31, 2016	December 31, 2015
Deferred revenues	\$ 19,637	\$ 10,436

**NOTE 5: LINE OF CREDIT AND LOAN**Line of Credit

	March 31, 2016	December 31, 2015
Line of credit	4,572,223	4,635,000
Less: Deferred financing cost	(28,193 )	(36,559 )
	\$4,544,030	\$4,598,441

On September 30, 2014, the Company entered into an amendment of its line of credit, or the Line of Credit, with Pacific Western Bank, as successor in interest by merger to Square 1 Bank, or the Lender, to borrow up to a maximum

of \$6,000,000 at the Company's discretion, an increase from up to \$3,000,000 that the Company was permitted to borrow under the original Line of Credit entered into on March 17, 2014. Amounts borrowed will accrue interest at the prime rate in effect from time to time plus 1.25%, not to be less than 5.5% per annum, provided that in no event shall the accrued interest payable with respect to any month be less than \$10,000. Accrued interest on amounts borrowed is payable monthly. All other amounts borrowed were to be payable in full on the maturity date of March 17, 2016; however, this date has been extended by the Lender until May 31, 2016. This maturity extension was granted concurrently with a waiver issued by the Lender pursuant to an amendment to the Line of Credit on March 11, 2016, which amendment waives any default due to breach of the Line of Credit minimum liquidity covenant during the specified time period, adjusts the Minimum Adjusted EBITDA covenant, and reduces the credit limit to \$5,135,000. A condition precedent to the waiver was the funding of a \$625,000 subordinated loan, or the Agility Loan, from Agility Capital II, LLC, or Agility Capital, which funded on March 11, 2016. The Line of Credit may be earlier terminated without a prepayment fee.

The Line of Credit, as amended, contains covenants including, but not limited to, covenants to achieve specified Adjusted EBITDA levels, as defined, and customer renewal levels, limiting capital expenditures, requiring minimum liquidity and restricting the Company's ability to pay dividends, purchase and sell assets outside the ordinary course and incur additional indebtedness. As of March 31, 2016, the Company was in compliance with these amended covenants. The occurrence of a material adverse change, as defined, will be an event of default under the Line of Credit, in addition to other customary events of default. The Company granted the Lender a security interest in all of its personal property and intellectual property.

In connection with the original Line of Credit, the Company issued to the Lender a warrant to purchase up to 46,875 shares of the Company's Common Stock at an exercise price of \$1.60 per share. The warrant expires on March 17, 2017. The fair value of the warrant amounted to \$32,067. On March 27, 2015, in connection with an obligation under the Line of Credit when borrowings thereunder exceed \$3,000,000, the Company issued to the Lender a warrant to purchase 58,824 shares of the Company's Common Stock at an exercise price of \$1.53 per share. This warrant expires on March 27, 2018. The fair value of the warrant amounted to \$37,289.

The Company owed \$4,572,223 under the Line of Credit at March 31, 2016. The interest rate for the amount borrowed was 5.5% per annum.

The Company paid approximately \$50,000 to the Lender in financing costs through December 31, 2015, and approximately \$58,000 through March 31, 2016. The fair value of the warrants as well as the financing costs not expensed, which amounted to \$33,500, were capitalized as deferred financing costs at March 31, 2016. The Company recognized an amortization expense of \$74,663 in connection with such deferred financing costs at March 31, 2016. The Company recognized amortization and interest expenses in connection with the Line of Credit as follows.

	Three-month periods ended	
	March 31,	March 31,
	2016	2015
Amortization expense associated with line of credit	\$13,366	\$7,550
Interest expense associated with line of credit	\$63,028	\$37,455

### Agility Loan

On March 11, 2016, the Company entered into a subordinated loan with Agility Capital which provides for total availability of \$625,000 and matures on March 31, 2017. The Agility Loan has a fixed interest rate of 12% per year and requires \$25,000 monthly amortization payments beginning on June 1, 2016. The Agility Loan also requires fees of approximately \$130,000 over the life of the loan, and is subject to a total aggregate minimum interest of \$50,000 in the event of a prepayment. The Agility Loan contains covenants to achieve specified Adjusted EBITDA levels, as defined, limiting capital expenditures, restricting the Company's ability to pay dividends, purchase and sell assets outside the ordinary course and incur additional indebtedness. As of March 31, 2016, the Company was in compliance with these covenants. The Agility Loan requires a security interest in all of the Company's personal property and intellectual property, second in priority to the Lender.

In connection with the Agility Loan, Agility Capital is entitled to purchase, under certain circumstances, fully paid and nonassessable shares of the Company's class of securities, or Shares, at the initial exercise price per Share which is the closing price on the day prior to the issuance date, or the Warrant Price. The initial number of Shares issuable upon exercise of this Warrant is zero (0). On June 30, 2016, if any amounts under the Agility Loan remain outstanding, then the number of Shares issuable upon exercise of this Warrant shall equal \$31,250 divided by the Warrant Price. In addition to the foregoing, upon the occurrence of an Event of Default, as defined in the loan agreement, pursuant to Section 5(a) or Section 5(b) of the Agility Loan, the number of Shares that may be acquired thereunder shall increase by an additional number of Shares equal to 5% of the number of Shares issuable thereunder upon the date of such Event of Default, and further increased on the 15th day following such Event of Default and on each 15th day thereafter (each, a "Measurement Date") by a number of Shares equal to 5% of the number of Shares issuable upon such Measurement Date, until the Event of Default is cured to Agility Capital's satisfaction or waived in writing by Agility Capital. As of March 31, 2016, the Company has not issued any warrants to Agility Capital.

The Company owed \$625,000 under the Agility Loan at March 31, 2016. The Company recognized amortization expense of financing costs in connection with the Agility Loan as follows.



	Three-month periods ended	
	March	March
	31,	31,
	2016	2015

Amortization expense associated with the Agility Loan	\$ 125,000	\$ -
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## NOTE 6: STOCKHOLDERS' EQUITY

### Common Stock

During the three-month period ended March 31, 2015, the Company generated proceeds of \$9,586 from the exercise of 11,457 options and issued 5,233 shares of its Common Stock pursuant to the cashless exercise of 11,458 options.

There were no exercises of options during the three-month period ended March 31, 2016.

As of March 31, 2016 and December 31, 2015, there were 65,069,327 shares of Common Stock issued and outstanding.

### Warrants

During the three-month period ended March 31, 2015, the Company issued 58,824 warrants to the Lender. The warrants are exercisable at the price of \$1.53 per share and expire on March 27, 2018. The fair value of these warrants which amounted to \$37,289, has been recognized as deferred financing fees and is amortized using the effective interest method over the terms of the associated Line of Credit.

The fair value of the warrants granted during the three-month period ended March 31, 2015 is based on the BSM model using the following assumptions:

Effective Exercise price	\$ 1.60
Effective Market price	\$ 1.60

Volatility	64	%
Risk-free interest	0.9	%
Term (years)	3	
Expected dividend rate	0	%

During the three months ended March 31, 2016, no new warrants were issued nor exercised or forfeited.

As of March 31, 2016 and December 31, 2015, there were 6,667,699 warrants issued and outstanding with a weighted average price at \$1.25.

The Company recorded expenses of \$284,093 during each of the three months ended March 31, 2016 and 2015, related to warrants granted to employees in prior years.

Stock Option Plan

The Company has a Stock Option Plan, or the Plan, under which the total number of shares of capital stock of the Company that may be subject to options under the Plan is currently 22,500,000 shares of Common Stock from either authorized but unissued shares or treasury shares. The individuals who are eligible to receive option grants under the Plan are employees, directors and other individuals who render services to the management, operation or development of the Company or its subsidiaries and who have contributed or may be expected to contribute to the success of the Company or a subsidiary. Every option granted under the Plan shall be evidenced by a written stock option agreement in such form as the Board shall approve from time to time, specifying the number of shares of Common Stock that may be purchased pursuant to the option, the time or times at which the option shall become exercisable in whole or in part, whether the option is intended to be an incentive stock option or a non-incentive stock option, and such other terms and conditions as the Board shall approve.

The share-based payment is based on the fair value of the outstanding options amortized over the requisite period of service for option holders, which is generally the vesting period of the options. The fair value of the options granted during the three-month periods ended March 31, 2016 and 2015 is based on the BSM model using the following assumptions:

	March 31, 2016	March 31, 2015
Effective Exercise price	\$ 0.45	\$ 1.40
Effective Market price	\$ 0.45	\$ 1.40
Volatility	70%	62%
Risk-free interest	0.9%	0.9%
Terms (years)	4	3 - 4
Expected dividend rate	0%	0%

The Company generally recognizes its share-based payment over the vesting terms of the underlying options.

	Three-month periods ended	
	March 31, 2016	March 31, 2015
Weighted-average grant date fair value	\$0.45	\$0.66
Fair value of options, recognized as selling, general, and administrative expenses	\$157,067	\$352,574
Number of options granted	20,000	22,500
Number of options expired or forfeited	(25,000)	(55,000)

As of March 31, 2016 and December 31, 2015, there were 13,585,000 and 13,590,000 options issued and outstanding with a weighted average price of \$0.48.

The total compensation cost related to non-vested awards not yet recognized amounted to \$548,367 at March 31, 2016 and the Company expects that it will be recognized over the following weighted-average period of 51 months.

If any options granted under the Plan expire or terminate without having been exercised or cease to be exercisable, such options will be available again under the Plan. All employees of the Company and its subsidiaries are eligible to receive incentive stock options and non-qualified stock options. Non-employee directors and outside consultants who provided bona-fide services not in connection with the offer or sale of securities in a capital raising transaction are eligible to receive non-qualified stock options. Incentive stock options may not be granted below their fair market value at the time of grant or, if to an individual who beneficially owns more than 10% of the total combined voting power of all stock classes of the Company or a subsidiary, the option price may not be less than 110% of the fair value of the Common Stock at the time of grant. The expiration date of an incentive stock option may not be longer than ten years from the date of grant. Option holders, or their representatives, may exercise their vested options up to three months after their employment termination or one year after their death or permanent and total disability. The Plan provides for adjustments upon changes in capitalization.

The Company's policy is to issue shares pursuant to the exercise of stock options from its available authorized but unissued shares of Common Stock. It does not issue shares pursuant to the exercise of stock options from its treasury shares.

**NOTE 7: COMPREHENSIVE LOSS**

Comprehensive loss includes changes in equity related to foreign currency translation adjustments. The following table sets forth the reconciliation from net loss to comprehensive loss for the three-month periods ended March 31, 2016 and 2015:

	Three months ended	
	March 31,	
	2016	2015
Net loss	\$(583,241)	\$(1,594,222)
Other comprehensive loss:		
Foreign currency translation adjustment	(7,188 )	(6,543 )
Comprehensive loss	\$(590,429)	\$(1,600,765)

The following table sets forth the balance in accumulated other comprehensive loss as of March 31, 2016 and December 31, 2015, respectively:

	March	December
	31,	31,
	2016	2015
Accumulated other comprehensive loss	\$(28,868)	\$(21,680 )

**NOTE 8: SEGMENTS**

The Company operates in one business segment. Percentages of sales by geographic region for the three-month periods ended March 31, 2016 and 2015 were approximately as follows:

	Three-month periods ended	
	March 31,	
	2016	2015
United States	68%	74%

Europe	19%	18%
Other	13%	8%

## **NOTE 9: COMMITMENTS AND CONTINGENCIES**

During January 2014, the Company entered into a 4-year lease for certain office space in Newport Beach, effective February 1, 2014. Under the terms of the lease, the Company initially paid monthly base rent of approximately \$22,000 increasing incrementally to approximately \$25,000.

During May 2014, the Company entered into a two year sublease in Newport Beach, effective May 1, 2014. The Company initially paid monthly base rent of approximately \$10,000 per month, increasing to approximately \$11,000 per month by the end of the lease term.

During July 2014, the Company entered into a five year lease for certain office space in a business center in London, England, which commenced on July 30, 2014. The base rent is GBP 89,667 (approximately \$129,000) per year and the estimated service charges for the lease are GBP 45,658 (approximately \$66,000) per year. The Company paid approximately GBP 60,000 (approximately \$86,000) for furniture, cabling and build out of the office space.

### **Legal Proceedings**

From time to time, the Company may become involved in legal proceedings arising in the ordinary course of business. The Company is not presently a party to any legal proceedings, including the following, that it currently believes, if determined adversely to the Company, would individually or taken together have a material adverse effect on the Company's business, operating results, financial condition or cash flows.

*McCollum Litigation*

The Company is currently involved in a litigation with Jeff McCollum, the former President of its CAKE division, in the Superior Court of the State of California, commenced by the Company on February 22, 2015, whereby it asserted claims against Mr. McCollum for fraud, breach of contract, and breach of fiduciary duty, among others, following its termination of Mr. McCollum's employment on September 8, 2014 for cause as a result of, among other things, Mr. McCollum having abandoned his position and professional responsibilities. Mr. McCollum filed a cross complaint alleging breach of contract by the Company with respect to Mr. McCollum's employment agreement and commenced a separate action on February 23, 2015 in the Superior Court of the State of California asserting claims against the Company for violation of California Commercial Code §8401 and breach of fiduciary duty arising from Mr. McCollum's request to have the restrictive legend removed from his share certificate representing 1.89 million shares of the Company's Common Stock owned by him, and seeking declaratory relief as to whether he is entitled to have the restrictive legend removed from his share certificate. On April 27, 2016 the court granted Mr. McCollum summary adjudication as to his declaratory relief cause of action to have the restrictive legend removed from his share certificate.

**NOTE 10: SUBSEQUENT EVENTS**

On April 12, 2016, the Company, appointed Anthony P. Mazzarella as its Executive Vice President and Chief Financial Officer.

On May 5, 2016, the Company entered into a loan and security agreement, or the SaaS Capital Loan, with SaaS Capital Funding II, LLC to borrow up to a maximum of \$8,000,000. Initial amounts borrowed will accrue interest at the rate of 10.25% per annum with future amounts borrowed bearing interest at the greater of 10.25% or 9.21% plus the three-year treasury rate at the time of advance. Accrued interest on amounts borrowed is payable monthly for the first six months and thereafter 36 equal monthly payments of principal and interest is payable. Prepayments will be subject to a 10%, 6% or 3% of principal premium if prepaid prior to 12 months, between 12 and 24 months, or between 24 months and maturity, respectively. Advances may be requested until May 5, 2018. The initial minimum advance amount is \$5,000,000. A facility fee of \$80,000 is payable in connection with the initial advance and on May 5, 2017. On May 5, 2016, the Company drew down \$5,000,000 as the initial advance from the SaaS Capital Loan and used a portion of the proceeds to repay the outstanding Line of Credit balance.

The SaaS Capital Loan contains customary covenants including, but not limited to, covenants to achieve specified Adjusted EBITDA levels and revenue renewal levels, limiting capital expenditures and restricting the Company's ability to pay dividends, purchase and sell assets outside the ordinary course and incur additional indebtedness. The occurrence of a material adverse change will be an event of default under the SaaS Capital Loan, in addition to other customary events of default. The Company granted SaaS Capital Funding II, LLC a security interest in all of the Company's personal property and intellectual property through the SaaS Capital Loan and the Patent, Trademark and

Copyright Security Agreement between the Company and SaaS Capital Funding II, LLC.

In connection with the SaaS Capital Loan, the Company issued to SaaS Capital Partners II, LP, an affiliate of SaaS Capital Funding II, LLC, a warrant to purchase up to 1,333,333 shares of the Company's common stock at an exercise price of \$0.45 per share subject to certain adjustments for dividends, splits or reclassifications. The Warrant is exercisable until the earlier of May 5, 2026, or the date that is 5 years from the date the Company's equity securities are first listed for trading on NASDAQ. The Warrant was issued under the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended.



## **ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2015. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements. See "Cautionary Statement Regarding Forward Looking Information" elsewhere in this report. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements.*

### **Overview**

We own and operate CAKE and getcake.com, a marketing technology that provides a comprehensive suite of innovative marketing intelligence tools. Our powerful SaaS enterprise solution has been an industry standard for advertisers, networks, publishers, and agencies to measurably improve and optimize their digital spend. We currently have over 500 customers driving billions of consumer actions monthly through the CAKE enterprise platform.

Our revenue model is based on a monthly license fee, a usage fee (based on volume of clicks, impressions, or leads), a training and implementation fee, and in certain cases, professional services fees and royalties. Clients purchase annual or monthly subscriptions with an additional usage fee. A majority of our revenue is derived from clients in the United States but we have seen a 23% growth in our client base outside of the United States during the three-month period ended March 31, 2016 when compared to the same period in 2015.

Our training, support personnel, hosting and cloud-based infrastructure contribute to our cost of operating the business. We anticipate more spending in these areas while we continue to grow and could foresee some savings in infrastructure cost due to economies of scale. However, we want to continue to invest in these areas to support our growth.

We experienced 13% year over year growth in revenue during the three-month period ended March 31, 2016 when compared to the same period in 2015. The organic growth has been a result of providing the marketing technology industry a comprehensive suite of marketing intelligence tools through innovation and what we believe to be a superior product and customer experience.

We allocated a portion of our marketing budget to being present at tradeshow, writing for and participating in industry publications, and providing the support documentation required by sales initiatives. Additional efforts will be

made to speak at industry events and write for online publications, increasing awareness of the CAKE suite of products and the thought leadership driving product development.

Our principal offices are located at 20411 SW Birch Street, Suite 250, Newport Beach, CA 92660. Our telephone number there is: (949) 548-2253. Our corporate website is: [www.accelerize.com](http://www.accelerize.com), the contents of which are not part of this quarterly report.

Our Common Stock is quoted on the OTCQB Marketplace under the symbol "ACLZ."

**Results of Operations**

ACCELERIZE INC.

## UNAUDITED CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

	Three-month periods ended		Increase/	Increase/	
	March 31, 2016	2015	(Decrease)	(Decrease)	
			in \$ 2016 vs 2015	in % 2016 vs 2015	
Revenues	\$5,864,018	\$5,199,662	\$664,356	12.8	%
Cost of revenues	1,932,123	1,317,766	614,357	46.6	%
Gross Profit	3,931,895	3,881,896	49,999	1.3	%
Operating expenses:					
Research and development	1,030,456	875,382	155,074	17.7	%
Sales and marketing	992,878	2,133,924	(1,141,046)	-53.5	%
General and administrative	2,288,712	2,454,446	(165,734 )	-6.8	%
Total operating expenses	4,312,046	5,463,752	(1,151,706)	-21.1	%
Operating loss	(380,151 )	(1,581,856)	(1,201,705)	-76.0	%
Other income (expense):					
Other income	9,459	32,978	(23,519 )	-71.3	%
Other expense	(212,549 )	(45,344 )	167,205	368.7	%
Total other expenses	(203,090 )	(12,366 )	190,724	1542.3	%
Net loss	\$(583,241 )	\$(1,594,222)	\$(1,010,981)	63.4	%

**Discussion of Results for Three-Month Periods Ended March 31, 2016 and 2015****Revenues**

	Three Months Ended		%
	March 31, 2016	2015	Change
Revenues	\$5,864,018	\$5,199,662	12.8%

We generate revenues from a training and implementation (also known as on-boarding) fee and a monthly licensing fee, supplemented by per-transaction fees paid by customers for monthly platform usage. In certain cases we also generate professional service fees and royalties.

The increase in our software licensing revenues during the three-month period ended March 31, 2016, when compared to the prior year period, is due to the increased number of customers using our SaaS products and services, as well as increased monthly revenues from our existing customers resulting from higher usage of our SaaS platform. Our number of clients increased 2% during the three-month period ended March 31, 2016, when compared to the prior year period, and our average monthly fee per customer increased 10% during the three-month period ended March 31, 2016, when compared to the prior year period. The increase in the number of customers using our SaaS products and services during the three-month period ended March 31, 2016 is primarily due to the increased resources we have devoted to customer acquisition for our SaaS products. The higher usage by our existing customers of the same products is primarily due to higher market acceptance among our larger users who generate a higher volume of transactions.

We believe that our SaaS revenues will continue to increase during the remainder of 2016 when compared to 2015.

**Cost of Revenues**

	Three Months Ended		%
	March 31, 2016	2015	Change

Cost of revenues \$1,932,123 \$1,317,766 46.6%

Cost of revenues consists primarily of web hosting and personnel costs associated with supporting customer on-boarding and training activities, consisting of salaries, benefits, and related infrastructure costs. Web hosting fees are partially correlated to our revenues, depending on each specific agreement we have with our clients. The majority of our clients' services are hosted on non-dedicated servers, on which capacity can be maximized by server, while certain customers prefer to have their services hosted on dedicated servers, on which capacity can only be maximized by customer and by server. Additionally, our resources associated with on-boarding are usually allocated at the beginning of the relationship with the new customer (usually, the first two months). Accordingly, our personnel costs associated with supporting customer on-boarding activities are not necessarily correlated with our revenues.

During the three-month period ended March 31, 2016, when compared to the prior year period, cost of revenues significantly increased mainly reflecting the higher web hosting fees incurred to support our increased number of clients and platform usage, which increased by approximately \$400,000, when compared to the same period in 2015.

We believe that our cost of revenues will continue to increase, at lower percentages than our anticipated increase in revenues, during the remainder of 2016, when compared to 2015.

### Research and Development Expenses

	Three Months Ended	%	
	March 31, 2016	2015	Change

Research and development \$1,030,456 \$875,382 17.7%

Research and development expenses consist primarily of personnel costs associated with the enhancement and the maintenance of our SaaS product offerings, consisting of salaries, benefits, and related infrastructure costs, offset by capitalized software development costs.

Our research and development expenses increased during the three-month period ended March 31, 2016, when compared to the prior year period, due to increased staff assigned to the enhancement and maintenance of our software services, which translated into increased personnel costs, offset by the capitalization of software development costs which amounted to \$475,000 during the three-month period ended March 31, 2016.

We believe that our research and development expenses will continue to increase during the remainder of 2016, when compared to 2015, as we continue to enhance the features of our SaaS platform.

**Sales and Marketing Expenses**

	Three Months Ended		%
	March 31, 2016	2015	Change
Sales and marketing	\$992,878	\$2,133,924	-53.5%

Sales and marketing expenses primarily consist of personnel costs associated with the sale and the marketing of our SaaS products, including salaries, benefits, and related infrastructure, as well as the costs of related marketing programs, such as trade shows and public relations.

The decrease in sales and marketing expenses during the three-month period ended March 31, 2016, when compared to the prior year period, is primarily due to more efficient spending in specific, higher return, marketing programs and trade shows, as well as a reduction in personnel costs in both the marketing and sales departments.

We believe that our sales and marketing expenses will increase gradually in 2016, at lower levels than the prior year, as we continue to execute on proven marketing programs.

**General and Administrative Expenses**

	Three Months Ended		%
	March 31, 2016	2015	Change
General and administrative	\$2,288,712	\$2,454,446	-6.8%

General and administrative expenses primarily consist of personnel costs associated with the support of our operations consisting of salaries, benefits, and related infrastructure. Also included are non-personnel costs, such as audit fees, accounting services and legal fees, as well as professional fees, insurance and other corporate expenses such as investor relations.

The slight decrease in general and administrative expenses during the three-month period ended March 31, 2016, when compared to the prior year period, is primarily due to the reduction in personnel.

We believe that our general and administrative expenses will increase during the remainder of 2016 as we continue to increase the scope of our operations.

### Other Income

	Three Months Ended		%
	March 31, 2016	2015	Change
Other income	\$9,459	\$32,978	-71.3%

Other Income during the three-month period ended March 31, 2016 consisted mainly of the sale of non-inventory assets while during the three-month period ended March 31, 2015, other income consisted of the sale of non-inventory assets as well as rent from a sublease of our Santa Monica office space.

### Other Expense

	Three Months Ended		%
	March 31, 2016	2015	Change
Other expense	\$(212,549)	\$(45,344)	368.7%

Other expenses consist of credit card interest charges, amortization of deferred financing costs associated with our Line of Credit (described below) with the Lender, interest charges related to the Line of Credit, and financing costs related to the Agility Loan.

The increase in interest expenses during the three-month period ended March 31, 2016, when compared to the prior year period, is primarily due to higher levels of borrowings we have made from time to time under the Line of Credit and debt issue costs related to the Agility Loan. Our interest expense may change during the remainder of 2016 depending on our liquidity needs and we may choose to further finance our working capital needs through our



operations, from borrowings, or by issuing securities.

**Liquidity and Capital Resources**

	Ending balance at		Average balance during	
	March 31,		three months ended	
	2016	2015	2016	2015
Cash	\$1,081,221	\$1,488,837	\$1,285,029	\$1,309,752
Accounts receivable	2,093,909	1,946,622	2,020,266	1,848,094
Accounts payable and accrued expenses	2,414,458	1,700,489	2,057,474	1,451,492
Line of Credit, net of deferred financing cost	4,544,030	3,900,000	4,222,015	3,400,000
Loan	625,000	-	312,500	-

At March 31, 2016 and 2015, 56% and 63%, respectively, of our total assets consisted of cash and cash equivalents and accounts receivable.

We extend unsecured credit in the normal course of business to our customers. The determination of the appropriate amount of the reserve for uncollectible accounts is based upon a review of the amount of credit extended, the length of time each receivable has been outstanding, and the specific customers from whom the receivables are due.

The objective of liquidity management is to ensure that we have ready access to sufficient funds to meet commitments while implementing our growth strategy. Our primary sources of liquidity historically include the sale of our securities and borrowings from our Line of Credit.

We do not have any material commitments for capital expenditures of tangible items.

**Line of Credit**

On September 30, 2014, we entered into an amendment of our Line of Credit to borrow up to a maximum of \$6,000,000 at our discretion, an increase from up to \$3,000,000 that we were permitted to borrow under the original Line of Credit entered into on March 17, 2014. Amounts borrowed will accrue interest at the prime rate in effect from time to time plus 1.25%, not to be less than 5.5% per annum, provided that in no event shall the accrued interest payable with respect to any month be less than \$10,000. Accrued interest on amounts borrowed is payable monthly. All other amounts borrowed were to be payable in full on the maturity date of March 17, 2016; however, this date has been extended by the Lender until May 31, 2016. This maturity extension was granted concurrently with a waiver

issued by the Lender pursuant to an amendment to the Line of Credit on March 11, 2016, which amendment waives any default due to breach of the Line of Credit minimum liquidity covenant during the specified time period, adjusts the Minimum Adjusted EBITDA covenant, and reduces the credit limit to \$5,135,000. A condition precedent to the waiver was the funding of the \$625,000 subordinated loan from Agility Capital, which funded on March 11, 2016. The Line of Credit may be earlier terminated without a prepayment fee.

The Line of Credit, as amended, contains covenants including, but not limited to, covenants to achieve specified Adjusted EBITDA levels, as defined, and customer renewal levels, limiting capital expenditures, requiring minimum liquidity and restricting our ability to pay dividends, purchase and sell assets outside the ordinary course and incur additional indebtedness. As of March 31, 2016, we were in compliance with these amended covenants. The occurrence of a material adverse change, as defined, will be an event of default under the Line of Credit, in addition to other customary events of default. We granted the Lender a security interest in all of our personal property and intellectual property.

In connection with the original Line of Credit, we issued to the Lender a warrant to purchase up to 46,875 shares of our Common Stock at an exercise price of \$1.60 per share. The warrant expires on March 17, 2017. The fair value of the warrant amounted to \$32,067. On March 27, 2015, in connection with an obligation under the Line of Credit when borrowings thereunder exceed \$3,000,000, we issued to the Lender a warrant to purchase 58,824 shares of our Common Stock at an exercise price of \$1.53 per share. This warrant expires on March 27, 2018. The fair value of the warrant amounted to \$37,289.

We owed \$4,572,223 under the Line of Credit at March 31, 2016. The interest rate for the amount borrowed was 5.5% per annum.

On May 5, 2016, we repaid the outstanding Line of Credit balance with the initial advance from our SaaS Capital Loan, which became effective on May 5, 2016.

### **Agility Loan**

On March 11, 2016, we entered into a subordinated loan with Agility Capital which provides for total availability of \$625,000 and matures on March 31, 2017. The Agility Loan has a fixed interest rate of 12% per year and requires \$25,000 monthly amortization payments beginning on June 1, 2016. The Agility Loan also requires fees of approximately \$130,000 over the life of the loan, and is subject to a total aggregate minimum interest of \$50,000 in the event of a prepayment. The Agility Loan contains covenants to achieve specified Adjusted EBITDA levels, as defined, limiting capital expenditures, restricting our ability to pay dividends, purchase and sell assets outside the ordinary course and incur additional indebtedness. As of March 31, 2016, we were in compliance with these covenants. The Agility Loan requires a security interest in all of our personal property and intellectual property, second in priority to the Lender.

We believe we have sufficient cash to fund our operations for the next 12 months. We currently expect to use cash balances, borrowings, and net proceeds from sales of securities to fund our future operations, capital expenditures and other expenses. Our ability to obtain, and the costs of, any future financings will depend primarily on our success, profitability and market conditions, among other factors.

**Changes in Cash Flows**

	Three-month periods ended	
	March 31, 2016	2015
Cash flows from operating activities:		
Net loss	\$(583,241)	\$(1,594,222)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	264,080	403,021
Amortization of debt discount	138,366	7,550
Provision for bad debt	20,929	(196,305 )
Fair value of options	441,159	636,667
Changes in operating assets and liabilities:		
Accounts receivable	(281,831)	(751 )
Prepaid expenses	22,243	(14,373 )
Accounts payable and accrued expenses	178,075	461,045
Deferred revenues	9,201	(131,308 )
Other assets	9,418	6,174
Net cash provided by (used in) operating activities	218,399	(422,502 )
Cash flows from investing activities:		
Capitalized software for internal use	(475,000)	(177,424 )
Capital expenditures	-	(44,947 )
Proceeds from sale of assets	4,692	-
Net cash used in investing activities	(470,308)	(222,371 )
Cash flows from financing activities:		
Proceeds from line of credit	-	1,000,000
Repayment of line of credit	(62,777 )	-
Proceeds from loan	625,000	-
Payment of financing costs	(130,000)	-
Net proceeds from exercise of options and warrants	-	9,586
Net cash provided by financing activities	432,223	1,009,586
Effect of exchange rate changes on cash	(7,188 )	(6,543 )
Net increase in cash	173,126	358,170

*Comparison of three months ended March 31, 2016 to March 31, 2015*

The increase in accounts receivable as of March 31, 2016 is primarily due to a smaller increase in revenues when compared to the same period in 2015. The decrease in accounts payable and accrued expenses during the three-month period ended March 31, 2016 is primarily due to lower vendor accruals than in the same period in 2015.

Cash used in investing activities during the three-month period ended March 31, 2016 consists of capitalization of development costs for internal-use software of approximately \$475,000 offset by proceeds from sale of assets of approximately \$5,000. Cash used in investing activities during the three-month period ended March 31, 2015 consisted of recurring purchases of computer equipment and other capital expenditures of approximately \$45,000, and capitalization of development costs for internal-use software of approximately \$177,000.

Cash provided by financing activities during the three-month period ended March 31, 2016 resulted primarily from the \$625,000 Agility Loan offset by financing expenses for that loan of \$125,000 and a pay down on the Line of Credit of \$62,777. Cash provided by financing activities during the three-month period ended March 31, 2015 resulted primarily from a \$1,000,000 draw down on the Line of Credit.

The increase in net cash flows during the three-month periods ended March 31, 2016 and 2015 was due primarily to proceeds from the Agility Loan and Line of Credit necessary to support our existing and anticipated growth.

**Exercise of warrants and options**

There were no proceeds generated from the exercise of warrants or options during the three-month period ended March 31, 2016.

**Other outstanding obligations at March 31, 2016**

Line of Credit

During the three months ended March 31, 2016, we paid down \$62,777 under the Line of Credit. As of March 31, 2016, we owed \$4,572,223 under the Line of Credit.

### Warrants

As of March 31, 2016, 6,667,699 shares of our Common Stock are issuable pursuant to the exercise of warrants.

### Options

As of March 31, 2016, 13,585,000 shares of our Common Stock are issuable pursuant to the exercise of options.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We are exposed to a variety of risks, including changes in foreign currency exchange rates and changes in interest rates.

#### **Foreign Currency Exchange Risk**

Transactions that occur in our Subsidiary are exposed to exchange rate fluctuations when converted to our reporting currency. As a result, our earnings are at risk as it relates to exchange rate fluctuations. A relatively small amount of our monetary assets and liabilities are denominated in foreign currencies, principally the British Pound. Fluctuations in these currencies relative to the United States Dollar will result in transaction gains or losses included in net earnings.

As of March 31, 2016, we held cash funds of approximately \$16,000 in British Pounds in our Subsidiary's bank. We did not hold any amounts of other foreign currencies. If rates of the British Pound were to strengthen or weaken relative to the United States Dollar, we would realize gains or losses in converting these funds back into United States Dollars. In any event, given the small amounts, we do not expect fluctuations in exchange rates to have a material adverse effect on our business.

### **Interest Rate Risk**

A portion of our debt may be exposed to future interest rate fluctuations. As a result, our earnings are at risk in relation to interest rate fluctuations. On May 5, 2016, we entered into the SaaS Capital Loan, allowing us to borrow up to a maximum of \$8,000,000 over the next two years with repayment schedules which extend for approximately three further years. While initial amounts borrowed will accrue interest at the rate of 10.25% per annum, future amounts borrowed, if any, will bear interest at the greater of 10.25% or 9.21% plus the three-year treasury rate at the time of advance. Over the past five years, the three-year treasury rate has ranged from approximately 0.29% to approximately 1.38%. While future treasury rates are uncertain, we do not expect fluctuations in our applicable interest rates to have a material adverse effect on our business.



#### **Item 4. Controls and Procedures**

##### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer, who is our principal executive officer, and our Chief Financial Officer, who is our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2016, our disclosure controls and procedures are effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

##### *Changes in Internal Control Over Financial Reporting*

During the quarter ended March 31, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **PART II - OTHER INFORMATION**

##### **Item 1. Legal Proceedings**

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings, including the following, that we currently believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows.

##### *McCollum Litigation*

We are currently involved in a litigation with Jeff McCollum, the former President of our CAKE division, in the Superior Court of the State of California, commenced by us on February 22, 2015, whereby we asserted claims against Mr. McCollum for fraud, breach of contract, and breach of fiduciary duty, among others, following our termination of Mr. McCollum's employment on September 8, 2014 for cause as a result of, among other things, Mr. McCollum having abandoned his position and professional responsibilities. Mr. McCollum filed a cross complaint alleging breach of contract by us with respect to Mr. McCollum's employment agreement and commenced a separate action on February 23, 2015 in the Superior Court of the State of California asserting claims against us for violation of California Commercial Code §8401 and breach of fiduciary duty arising from Mr. McCollum's request to have the restrictive legend removed from his share certificate representing 1.89 million shares of our Common Stock owned by him, and seeking declaratory relief as to whether he is entitled to have the restrictive legend removed from his share certificate. On April 27, 2016 the court granted Mr. McCollum summary adjudication as to his declaratory relief cause of action to have the restrictive legend removed from his share certificate.

**Item 6. Exhibits**

- 4.1 Warrant to Purchase Stock issued May 5, 2016 (incorporated by reference to the Company's Current Report on Form 8-K filed on May 6, 2016).
- 10.1 Limited Waiver and Fifth Amendment to Loan Agreement, dated March 11, 2016, between Accelerize Inc. and Pacific Western Bank (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 17, 2016).
- 10.2 Loan Agreement, dated March 11, 2016, between Accelerize Inc. and Agility Capital II, LLC (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 17, 2016).
- 10.3 Intellectual Property Security Agreement, dated March 11, 2016, between Accelerize Inc. and Agility Capital II, LLC (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 17, 2016).
- 10.4 Subordination Agreement, dated March 11, 2016 (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 17, 2016).
- 10.5 Employment Agreement, dated as of April 12, 2016, between Anthony Mazzarella and Accelerize Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed on April 13, 2016).
- 10.6 Loan and Security Agreement, dated May 5, 2016, between Accelerize Inc. and SaaS Capital Funding II, LLC (incorporated by reference to the Company's Current Report on Form 8-K filed on May 6, 2016).
- 10.7 Patent, Trademark and Copyright Security Agreement, dated May 5, 2016, between Accelerize Inc. and SaaS Capital Funding II, LLC (incorporated by reference to the Company's Current Report on Form 8-K filed on May 6, 2016).
- 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a).\*
- 31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a).\*
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. 1350.\*\*
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350.\*\*
101. The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Comprehensive Loss, (iv) the Statements of Cash Flows, and (v) related notes to these financial statements.\*

\* Filed herewith.

\*\*Furnished herewith.



**SIGNATURES**

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

**ACCELERIZE INC.**

Dated: May 10, 2016 By: /s/ Brian Ross  
Brian Ross

President and Chief Executive Officer

(Principal Executive Officer)

Dated: May 10, 2016 By: /s/ Anthony Mazzarella  
Anthony Mazzarella  
Chief Financial Officer  
(Principal Financial Officer)