IZEA, Inc.
Form 10-Q
November 16, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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

For the transition period from _________________ to _________________

Commission File No.: 333-167960

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

Nevada (State or other jurisdiction of incorporation or organization)	37-1530765 (I.R.S. Employer Identification No.)
480 N. Orlando Avenue, Suite 200 Winter Park, FL (Address of principal executive offices)	32789 (Zip Code)

Registrant's telephone number, including area code: (407) 674-6911

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

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

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

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

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

As of November 6, 2015, there were 104,002,308 shares of our common stock outstanding.

Quarterly Report on Form 10-Q for the period ended September 30, 2015

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

IZEA, Inc.
Consolidated Balance Sheets

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current:		
Cash and cash equivalents	$13,273,048	$6,521,930
Accounts receivable, net	3,048,299	2,156,378
Prepaid expenses	745,426	190,604
Other current assets	13,317	61,424
Total current assets	17,080,090	8,930,336
Property and equipment, net of accumulated depreciation of $389,174 and $239,521	595,549	588,919
Goodwill	2,468,289	—
Intangible assets, net of accumulated amortization of $395,333 and $0	1,974,667	—
Software development costs, net of accumulated amortization of $171,185 and $85,331	413,365	483,544
Security deposits	119,671	100,641
Total assets	$22,651,631	$10,103,440
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$940,993	$310,611
Accrued expenses	1,151,468	394,617
Unearned revenue	2,358,895	1,767,074
Current portion of deferred rent	10,772	—
Current portion of capital lease obligations	15,602	54,376
Current portion of acquisition costs payable	833,227	—
Total current liabilities	5,310,957	2,526,678
Deferred rent, less current portion	107,303	106,531
Capital lease obligations, less current portion	—	7,291
Acquisition costs payable, less current portion	977,669	—
Warrant liability	10,780	3,203,465
Total liabilities	6,406,709	5,843,965
Stockholders' equity:		
Common stock, $.0001 par value; 200,000,000 shares authorized; 104,002,308 and 57,697,666, respectively, issued and outstanding	10,400	5,770
Additional paid-in capital	48,077,162	27,195,055
Accumulated deficit	(31,842,640)	(22,941,350)
Total stockholders' equity	16,244,922	4,259,475
Total liabilities and stockholders' equity	$22,651,631	$10,103,440

See accompanying notes to the unaudited consolidated financial statements.

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IZEA, Inc.
Unaudited Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$5,442,457	$1,931,671	$14,205,693	$5,857,946
Cost of sales	3,290,457	692,217	8,649,308	1,998,406
Gross profit	2,152,000	1,239,454	5,556,385	3,859,540
Operating expenses:				
General and administrative	1,056,473	1,287,048	5,081,367	3,600,621
Sales and marketing	1,982,088	1,515,139	5,310,124	3,726,370
Total operating expenses	3,038,561	2,802,187	10,391,491	7,326,991
Loss from operations	(886,561)	(1,562,733)	(4,835,106)	(3,467,451)
Other income (expense):				
Interest expense	(31,191)	(5,519)	(86,354)	(20,587)
Loss on exchange of warrants	(1,845,810)	—	(1,845,810)	—
Change in fair value of derivatives, net	115,904	2,250,344	(2,139,540)	5,625,555
Other income, net	2,571	3,278	5,520	7,677
Total other income (expense)	(1,758,526)	2,248,103	(4,066,184)	5,612,645
Net income (loss)	$(2,645,087)	$685,370	$(8,901,290)	$2,145,194
Weighted average common shares outstanding – basic	81,512,092	57,350,743	65,728,626	50,584,635
Basic income (loss) per common share	$(0.03)	$0.01	$(0.14)	$0.04
Weighted average common shares outstanding – diluted	81,512,092	69,428,993	65,728,626	63,663,192
Diluted income (loss) per common share	$(0.03)	$0.01	$(0.14)	$0.03

See accompanying notes to the unaudited consolidated financial statements.

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IZEA, Inc.
Unaudited Consolidated Statement of Stockholders' Equity

	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance, December 31, 2014	57,697,666	$5,770	$27,195,055	$(22,941,350)	$4,259,475
Stock purchase plan subscriptions	125,046	13	29,752	—	29,765
Fair value of warrants issued	—	—	51,950	—	51,950
Stock issued for payment of services	1,712,500	171	8,529	—	8,700
Stock-based compensation	—	—	511,202	—	511,202
Stock issued for payment of acquisition liability	636,294	63	249,937	—	250,000
Exercise of warrants	43,830,802	4,383	12,852,702	—	12,857,085
Fair value of warrants moved from liability & loss on exchange	—	—	7,178,035	—	7,178,035
Net loss	—	—	—	(8,901,290)	(8,901,290)
Balance, September 30, 2015	104,002,308	$10,400	$48,077,162	$(31,842,640)	$16,244,922

See accompanying notes to the unaudited consolidated financial statements.

IZEA, Inc.
Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net income (loss)	$(8,901,290)	$2,145,194
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depreciation	149,873	65,683
Amortization of software development costs and other intangible assets	481,187	103,529
Loss on disposal of equipment	595	16,192
Provision for losses on accounts receivable	36,000	—
Stock-based compensation	511,202	389,002
Value of stock and warrants issued or to be issued for payment of services	136,592	147,860
Gain on change in value of contingent acquisition costs payable	(1,734,300)	—
Loss on exchange of warrants	1,845,810	—
Change in fair value of derivatives, net	2,139,540	(5,625,555)
Cash provided by (used for):		
Accounts receivable	(611,400)	183,968
Prepaid expenses and other current assets	(465,191)	(454,839)
Accounts payable	87,043	(174,386)
Accrued expenses	726,643	30,326
Unearned revenue	557,927	(156,156)
Deferred rent	1,644	60,508
Net cash used for operating activities	(5,038,125)	(3,268,674)
Cash flows from investing activities:		
Purchase of equipment	(145,579)	(159,974)
Increase in software development costs	—	(206,529)
Acquisition, net of cash acquired	(905,586)	—
Security deposits	(477)	(11,067)
Net cash used for investing activities	(1,051,642)	(377,570)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants, net	—	10,932,912
Proceeds from exercise of options & warrants	12,886,950	112,800
Payments on notes payable and capital leases	(46,065)	(49,602)
Net cash provided by financing activities	12,840,885	10,996,110
Net increase in cash and cash equivalents	6,751,118	7,349,866
Cash and cash equivalents, beginning of year	6,521,930	530,052
Cash and cash equivalents, end of period	$13,273,048	$7,879,918
Supplemental cash flow information:		
Cash paid during period for interest	$5,805	$11,870
Non-cash financing and investing activities:		

Fair value of warrants issued	$51,950	$12,382,216
Acquisition costs payable for assets acquired	$3,942,639	$—
Acquisition costs paid through issuance of common stock	$250,000	$—
Fair value of warrants reclassified from liability to equity	$6,530,046	$3,166,482
Acquisition of assets through capital lease	$—	$41,339

See accompanying notes to the unaudited consolidated financial statements.

IZEA, Inc.
Notes to the Unaudited Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of September 30, 2015, the consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014, the consolidated statement of stockholders' equity for the nine months ended September 30, 2015 and the consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 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 (“U.S. GAAP”). The consolidated balance sheet as of December 31, 2014 has been derived from the audited consolidated financial statements at that date but, in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"), does not include all of the information and notes required by U.S. GAAP for complete financial statements. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of results that may be expected for the entire fiscal year. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2014 included in the Company's Annual Report on Form 10-K filed with the SEC on March 19, 2015.

Nature of Business

IZEA, Inc. (the "Company") was founded in February 2006 under the name PayPerPost, Inc. and became a public company incorporated in the state of Nevada in May 2011. The Company is headquartered in Orlando, Florida with additional offices in Chicago and Los Angeles.

The Company is a leading company in the social sponsorship space, creating the first social sponsorship marketplace in 2006 with the launch of our first platform, PayPerPost.com. Social sponsorship is when a company compensates a social media publisher or influencer such as a blogger or tweeter ("creators") to share sponsored content with their social network audience. This sponsored content is shared within the body of a content stream, a practice also referred to as “native advertising” and "sponsored content.”

On January 30, 2015, the Company purchased all of the outstanding shares of capital stock of Ebyline, Inc. (“Ebyline”), pursuant to the terms of a Stock Purchase Agreement, dated as of January 27, 2015, by and among IZEA, Ebyline and the stockholders of Ebyline (see Note 2). Based in Los Angeles, California, Ebyline operates an online marketplace that enables publishers to access a network of over 12,000 content creators ranging from writers to illustrators in 73 countries. Over 2,000 fully vetted individuals in the Ebyline network have professional journalism credentials with backgrounds at well-known media outlets. Ebyline’s proprietary workflow is utilized by leading media organizations to obtain the content they need from professional content creators. In addition to publishers, Ebyline is leveraged by brands to produce custom branded content for use on their owned and operated sites, as well as third party content marketing and native advertising efforts.

The Company currently operates the Ebyline online marketplace along with its own online marketplace that connects brands with creators at IZEA.com as well as other white label marketplaces. IZEA.com and all white label sites are powered by the IZEA Exchange (“IZEAx”), a platform that handles content workflow, creator search and targeting, bidding, analytics and payment processing. IZEAx is designed to provide a unified ecosystem that enables the creation of multiple types of content including blog posts, status updates, videos and photos through a wide variety of social channels including blogs, Twitter, Facebook, Instagram and Tumblr, among others. Prior to the launch of IZEAx, the Company had independent technology platforms including PayPerPost.com, SocialSpark.com and SponsoredTweets.com, all of which were transitioned to the IZEAx system by the end of 2014.

Principles of Consolidation
The consolidated financial statements include the accounts of IZEA, Inc. and its wholly-owned subsidiary, IZEA Innovations, Inc. and its wholly-owned subsidiary, Ebyline, Inc. (together, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements were prepared using the acquisition method of accounting with IZEA considered the accounting acquirer of Ebyline. Under the acquisition method of accounting, the purchase price is allocated to the underlying Ebyline tangible and intangible assets acquired and liabilities assumed based on their respective fair market values with any excess purchase price allocated to goodwill. The acquisition method of accounting is dependent upon certain valuations and other studies that are preliminary, based on work performed to date. IZEA anticipates that all the information needed to identify and measure values assigned to the assets acquired and liabilities assumed will be obtained and finalized during the one-year measurement period following the acquisition date. Differences between these preliminary estimates and the final acquisition accounting may occur, and these differences could have a material impact on the unaudited consolidated financial statements.

IZEA, Inc.
Notes to the Unaudited Consolidated Financial Statements

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

Accounts Receivable and Concentration of Credit Risk
Accounts receivable are customer obligations due under normal trade terms. Uncollectibility of accounts receivable is not significant since most customers are bound by contract and are required to fund the Company for all the costs of an “opportunity,” defined as an order created by an advertiser for a creator 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 collectibility of accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. The Company has a reserve of $31,000 for doubtful accounts as of September 30, 2015. The Company did not have a reserve for doubtful accounts as of December 31, 2014. Management believes that this estimate is reasonable, but there can be no assurance that the estimate will not change as a result of a change in economic conditions or business conditions within the industry, the individual customers or the Company. Any adjustments to this account are reflected in the consolidated statements of operations as a general and administrative expense. Bad debt expense was less than 1% of revenue for the three and nine months ended September 30, 2015 and 2014.

Concentrations of credit risk with respect to accounts receivable are typically 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, 2015, the Company had one customer which accounted for 12% of total accounts receivable in the aggregate. At December 31, 2014, the Company had two customers which accounted for 29% of total accounts receivable in the aggregate. The Company had one customer that accounted for 14% of its revenue during the three months ended September 30, 2015 and no customers that accounted for more than 10% of its revenue during the three months ended September 30, 2014. The Company had one customer that accounted for 14% of its revenue during the nine months ended September 30, 2015 and one customer that accounted for 10% of its revenue during the nine months ended September 30, 2014.

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

Computer Equipment	3 years
Software Costs	3 years
Office Equipment	3 - 10 years
Furniture and Fixtures	5 - 10 years
Leasehold Improvements	5 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 recognized in net income or loss. Depreciation expense recorded in general and administrative expense in the accompanying consolidated statements of operations was $53,337 and $24,903 for the three months ended September 30, 2015 and 2014, respectively. Depreciation expense recorded in general and administrative expense in the accompanying consolidated statements of operations was $149,873 and $65,683 for the nine months ended

September 30, 2015 and 2014, respectively.

Software Development Costs

In accordance with ASC 350-40, Internal Use Software and ASC 985-730, Computer Software Research and Development, research phase costs related to internal use software should be expensed as incurred and development phase costs including direct materials and services, payroll and benefits and interest costs may be capitalized. The Company amortizes software development costs equally over 5 years upon initial launch of the software. Amortization expense is expected to be approximately $117,000 in 2015 and for the next three years and then $33,000 thereafter. Amortization expense on software development costs recorded in general and administrative expense in the accompanying consolidated statements of operations was $28,966 and $47,406 for the three months ended September 30, 2015 and 2014, respectively. Amortization expense on software development costs recorded in general and administrative expense in the accompanying consolidated statements of operations was $85,854 and $94,812 for the nine months ended September 30, 2015 and 2014, respectively.

Intangible Assets
The Company acquired intangible assets through its acquisition of Ebyline on January 30, 2015. The Company is amortizing the identifiable intangible assets over a period of 12 to 60 months.

Goodwill
Goodwill represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets. In accordance with ASC Topic 350, Intangibles - Goodwill and Other, goodwill resulting from business combinations is tested for impairment at least annually or more frequently, if certain indicators are present. In the event that management determines that the value of goodwill has become impaired, the Company will record a charge for the amount of impairment during the fiscal quarter in which the determination is made.

Revenue Recognition
The Company derives its revenue from three sources: revenue from an advertiser when it pays for a social media publisher or influencer such as a blogger or tweeter ("creators") to share sponsored content with their social network audience ("Sponsored Revenue"), revenue when a publisher or company purchases custom branded content for use on its owned and operated sites, as well as third party content marketing and native advertising efforts ("Content Revenue") and revenue derived from various service and license fees charged to users of our platforms ("Service Fee Revenue"). Sponsored revenue is recognized and considered earned after an advertiser's sponsored content is posted through IZEAx and shared through a creator's social network for a requisite period of time. The requisite period ranges from 3 days for a tweet to 30 days for a blog, video or other form of content. Management fees related to Sponsored Revenue from advertising campaigns managed by the Company are recognized ratably over the term of the campaign which may range from a few days to months. Content Revenue is recognized when the content is delivered to and accepted by the customer. Service fees charged to customers are primarily related to subscription fees for different levels of service within a platform, licensing fees for white-label use of IZEAx, early cash-out fees if a creator wishes to take proceeds earned for services from their account when the account balance is below certain minimum balance thresholds and inactivity fees for dormant accounts. Service fees are recognized immediately when the service is performed or at the time an account becomes dormant or is cashed out. Self-service advertisers must prepay for services by placing a deposit in their account with the Company. The deposits are typically paid by the advertiser via credit card. Advertisers who use the Company to manage their social advertising campaigns or content requests may prepay for services or request credit terms. Payments received or billings in advance of services are recorded as unearned revenue until earned as described above.

All of the Company's revenue is generated through the rendering of services and is recognized under the general guidelines of SAB Topic 13 A.1 which states that revenue will be recognized when it is realized or realizable and earned. The Company considers its revenue as generally realized or realizable and earned once (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) the price to the advertiser or customer is fixed (required to be paid at a set amount that is not subject to refund or adjustment) and determinable, and (iv) collectibility is reasonably assured. The Company records revenue on the gross amount earned since it generally is the primary obligor in the arrangement, it takes on credit risk, it 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, 2015 and 2014 were approximately $199,000 and $347,000, respectively. Advertising expense charged to operations for the nine months ended September 30, 2015 and 2014 were approximately $411,000 and $635,000, respectively. Advertising costs are included in sales and marketing expense in the accompanying consolidated statements of operations.

Deferred Rent

The Company's operating leases for its office facilities contain rent abatements and predetermined fixed increases of the base rental rate during the lease term. The Company accounts for rental expense on a straight-line basis over the lease term. The Company records the difference between the straight-line expense versus the actual amounts paid under the lease as deferred rent in the accompanying consolidated balance sheets.

Income Taxes

The Company has not recorded federal 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 incurs minimal state franchise taxes in two states which is included in general and administrative expenses in the statements of operations.

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 tax years, subject to examination by the Internal Revenue Service, generally remain open for three years from the date of filing.

Derivative Financial Instruments

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

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. The valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect certain market assumptions. There are three levels of inputs that may be used to measure fair value:

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

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The Company does not have any Level 1 or 2 financial assets or liabilities. The Company's Level 3 financial liabilities measured at fair value consisted of a warrant liability (see Note 4) and its acquisition cost liability (see Note 2) as of September 30, 2015. Significant unobservable inputs used in the fair value measurement of the warrants include the estimated term and risk-adjusted interest rates. In developing our credit risk assumption used in the fair value of warrants, consideration was made of publicly available bond rates and US Treasury Yields. However, since the Company does not have a formal credit-standing, management estimated its standing among various reported levels and grades for use in the model. During all periods, management estimated that the Company's standing was in the speculative to high-risk grades (BB- to CCC in the Standard and Poor's Rating). Significant increases or decreases in the estimated remaining period to exercise or the risk-adjusted interest rate could result in a significantly lower or higher fair value measurement.

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 and cash equivalents, accounts receivable, accounts payable, unearned revenue and accrued expenses. Unless otherwise disclosed, the fair value of the Company’s capital lease obligations approximate their carrying value based upon current rates available to the Company.

Stock-Based Compensation
Stock-based compensation cost related to stock options granted under the May 2011 Equity Incentive Plan and August 2011 B Equity Incentive Plan (together, the "2011 Equity Incentive Plans") (see Note 6) is measured at the grant date, based on the fair

value of the award, and is recognized as an expense over the employee's requisite service period. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The Company estimates the fair value of its common stock using the closing stock price of its common stock as quoted in the OTCQB marketplace on the date of the option award. The Company estimates the volatility of its common stock at the date of grant based on the volatility of comparable peer companies that are publicly traded and have had a longer trading history than itself. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. The Company uses the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. The Company used the following assumptions for options granted under the 2011 Equity Incentive Plans during the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
2011 Equity Incentive Plans Assumptions	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Expected term	6 years	5 years	6 years	5 years
Weighted average volatility	53.81%	40.37%	56.62%	40.83%
Weighted average risk free interest rate	1.78%	1.75%	1.58%	1.71%
Expected dividends	—	—	—	—

The Company estimates forfeitures when recognizing compensation expense and this estimate of forfeitures is adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and a revised amount of unamortized compensation expense to be recognized in future periods. Average expected forfeiture rates were 15.37% and 3.79% during the three months ended September 30, 2015 and 2014, respectively. Average expected forfeiture rates were 12.37% and 7.29% during the nine months ended September 30, 2015 and 2014, respectively.

Non-Employee Stock-Based Compensation

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC 505, "Equity-Based Payments to Non-Employees." 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. The fair value of equity instruments issued to consultants that vest immediately is expensed when issued. The fair value of equity instruments issued to consultants that have future vesting and are subject to forfeiture if performance does not occur is recognized as expense over the vesting period. Fair values for the unvested portion of issued instruments are adjusted each reporting period. The change in fair value is recorded to additional paid-in capital. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or the fair value of the services, whichever is more readily determinable.

Segment Information

The Company does not identify separate operating segments for management reporting purposes. The results of consolidated 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.

Reclassifications

Certain items have been reclassified in the 2014 financial statements to conform to the 2015 presentation. The Company has reclassified wages and other expenses related to its sales and marketing personnel out of general and administrative expense and into sales and marketing expense.

Recent Accounting Pronouncements

There are 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 have a material impact on the Company's financial position or operating results.

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In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2017.

NOTE 2. EBYLINE ACQUISITION

Purchase Price
On January 30, 2015, the Company purchased all of the outstanding shares of capital stock of Ebyline, pursuant to the terms of a Stock Purchase Agreement, dated as of January 27, 2015, by and among IZEA, Ebyline and the stockholders of Ebyline for a maximum purchase price to be paid over the next three years of $8,850,000. The total consideration is made up of four components:
(a) a cash payment of $1,200,000 paid at closing;
(b) an issuance of IZEA Common Stock valued at $250,000 paid on July 30, 2015;
(c) a cash or stock payment of up to an additional $1,900,000 (subject to proportional reduction in the event Ebyline’s final 2014 revenue was below $8,000,000). Ebyline's final gross revenue for 2014 was $7,903,429. As such, the total amount owed is $1,877,064 to be paid in two equal installments of $938,532 on January 30, 2016 and January 30, 2017; and
(d) total contingent performance payments up to $5,500,000 based on Ebyline meeting certain revenue targets. The performance payments are to be made only if Ebyline achieves at least 90% of Content Revenue targets of $17,000,000 in 2015, $27,000,000 in 2016 and $32,000,000 in 2017. If Ebyline achieves at least 90%, but less than 100% of the Content Revenue targets, the performance payments owed of $1,800,000, $1,800,000 and $1,900,000 for each of the three years ending December 31, 2015, 2016 and 2017, respectively, will be subject to adjustment. Anything below 90% of the Content Revenue targets will not be eligible for any performance payment. The performance payments are also subject to a 17% reduction in the event that either of the two executive employees retained during the acquisition were no longer employed at the end of the measurement year. Performance payments are due no later than 90 days after the measuring period and may be paid in cash or common stock, at the Company's option.
Consideration Payable
The fair value of the total estimated future consideration to be paid is as follows:

	Estimated Gross Purchase Consideration 1/30/2015	Initial Present and Fair Value 1/30/2015	Remaining Present and Fair Value 9/30/2015
Cash paid at closing	$1,200,000	$1,200,000	$—
Present value of the guaranteed purchase price (a)	2,127,064	1,982,639	1,800,596
Fair value of contingent performance payments (b)	2,210,000	1,834,300	100,000
Acquisition costs to be paid by Ebyline shareholders (c)			(89,700)
Total estimated consideration	$5,537,064	$5,016,939	$1,810,896

Current portion of acquisition costs payable	833,227
Long term portion of acquisition costs payable	977,669
Total acquisition costs payable	$1,810,896

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(a) The guaranteed purchase price consideration, as detailed above, was discounted to present value using our current borrowing rate of prime plus 2% (5.25%). Interest expense imputed on the acquisition costs payable in the accompanying consolidated statements of operations was $28,651 and $43,789 for the three and nine months ended September 30, 2015. Per the Stock Purchase Agreement, the Company issued 636,294 shares of its common stock valued at $250,000 to satisfy a portion of the guaranteed purchase price payment obligation on July 30, 2015.

(b) The fair value of the $5,500,000 of contingent performance payments described above was calculated using a Monte-Carlo simulation to simulate revenue over the next three years. Since the contingent consideration has an option like structure, a risk-neutral framework is considered appropriate for the valuation. The Company started with a risk-adjusted measure of forecasted revenue (using a risk-adjusted discount rate of 8.5%) and assumed it will follow geometric brownian motion to simulate the revenue at future dates. Once the initial revenue was estimated based off of projections made during the acquisition, payout was calculated for each year and present valued to incorporate the credit risk associated with these payments. The Company's initial value conclusion was based on the average payment from 100,000 simulation trials. The volatility used for the simulation was 35%. The Monte Carlo simulation resulted in a calculated fair value of contingent performance payments of $2,210,000 on January 30, 2015. Because the contingent performance payments are subject to a 17% reduction related to the continued employment of certain key employees, ASC 805-10-55-25 indicates that a portion of these payments be treated as potential compensation to be accrued over the term rather than allocated to the purchase price. Therefore, the Company reduced its overall purchase price consideration by $357,700 and recorded the initial present value of the contingent performance payments at $1,834,300. During the three months ended September 30, 2015, the Company reassessed the expected revenues to be produced from Content Revenues over the next three years. The revised Content Revenue estimates are below 90% of the required Content Revenues targets. The Monte Carlo simulation as of September 30, 2015 with these revised projections resulted in a revised calculated fair value of contingent performance payments of $100,000. The gain as a result of the decrease in the estimated fair value of contingent performance payments of $1,734,300 is recorded as a reduction of general and administrative expense in the Company's statements of operations during the three and nine months ended September 30, 2015.

(c) According to the stock purchase agreement, certain acquisition costs paid by Ebyline during the acquisition process are to be paid by the selling shareholders. These costs will be deducted from the guaranteed payment on January 30, 2016.

Purchase Price Allocation

The preliminary allocation of the purchase price as of January 30, 2015 is summarized as follows:

	Initial Purchase Price Allocation
Current assets	$738,279
Property and equipment	27,194
Identifiable intangible assets	2,370,000
Goodwill	2,468,289
Security deposits	18,553
Current liabilities	(605,376)
Total estimated consideration	$5,016,939

Intangible Assets and Goodwill

The identifiable intangible assets in the purchase price allocation consist of the following assets:

Identifiable Intangible Asset	Initial Value	Accumulated Amortization 9/30/2015	Net Book Value 9/30/2015	Useful Life (in years)
Content provider network	$30,000	20,000	10,000	1
Ebyline trade name	40,000	26,666	13,334	1

Workflow customers	210,000	70,000	140,000	2
Developed technology	300,000	40,000	260,000	5
Virtual Newsroom customers	1,790,000	238,667	1,551,333	5
Total identifiable intangible assets	$2,370,000	$395,333	$1,974,667	

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The Company is amortizing the identifiable intangible assets over a weighted average period of 4 years. Amortization expense on the identifiable intangible assets costs recorded in general and administrative expense in the accompanying consolidated statements of operations was $148,250 and $395,333 for the three and nine months ended September 30, 2015.

The estimated amortization expense for future years is as follows:

2015	$ 543,583
2016	528,834
2017	426,750
2018	418,000
2019	418,000
Thereafter	34,833
Total	$ 2,370,000

The Company has recorded $2,468,289 in goodwill from the Ebyline acquisition as of September 30, 2015. This amount represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets. There are many synergies between the business operations of Ebyline and IZEA including a database of creators that can provide content and advertising and synergies between our online marketplaces that appeal to customers on both sides. The Ebyline operations contributed revenue of $2,173,617 and gross profit of $243,525 in the consolidated statements of operations for the three months ended September 30, 2015. The Ebyline operations contributed revenue of $5,704,622 and gross profit of $624,919 in the consolidated statements of operations for the nine months ended September 30, 2015.

NOTE 3. NOTES PAYABLE

Bridge Bank Credit Agreement

On March 1, 2013, the Company entered into a secured credit facility agreement with Bridge Bank, N.A. of San Jose, California, and expanded this facility with an agreement on April 13, 2015. Pursuant to this agreement, the Company may submit requests for funding up to 80% of its eligible accounts receivable up to a maximum credit limit of $5 million. This agreement is secured by the Company's accounts receivable and substantially all of the Company's other assets. The agreement renews annually and requires the Company to pay an annual facility fee of $20,000 (0.4% of the credit limit) and an annual due diligence fee of $1,000. Interest accrues on the advances at the rate of prime plus 2% per annum. The default rate of interest is prime plus 7%. If the agreement is terminated prior to May 1, 2016, the Company will be required to pay a termination fee of .70% of the credit limit divided by 80%. As of September 30, 2015, the Company had no advances outstanding under this agreement.

The Company incurred $50,510 in costs related to this loan acquisition in prior years and an additional $23,184 in costs related to the loan expansion in April 2015. These costs are capitalized in the Company's consolidated balance sheet as loan acquisition costs within other current assets and are amortized to interest expense over one year. The Company amortized $5,796 and $1,375 of these costs through interest expense during the three months ended September 30, 2015 and 2014, respectively. The Company amortized $6,796 and $7,217 of these costs through interest expense during the nine months ended September 30, 2015 and 2014, respectively.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company evaluates its convertible debt, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with paragraph 810-10-05-4 and 815-40-25 of the FASB Accounting Standards Codification. The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the Statement of Operations as other income or expense. Upon registration of the shares, changes in price-based anti-dilution adjustments, conversion or exercise, as applicable, of a derivative instrument, the instrument is marked to fair value at the date of the occurrence of the event and then that fair value is reclassified to equity.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within 12 months after the balance sheet date.

Warrant Liability

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2014 Activity:
On February 21, 2014, the Company issued five-year warrants to purchase 17,142,864 shares of the Company's common stock at an exercise price of $0.35 per share and five-year warrants to purchase 17,142,864 shares of the Company's common stock at an exercise price of $0.50 per share pursuant to the terms of the securities purchase agreements entered into in connection with a private placement of its shares in February 2014 (the "2014 Private Placement"). As part of the 2014 Private Placement, the Company also issued a five-year warrant to purchase up to 750,511 shares of the Company's common stock at an exercise price of $0.35 per share and a five-year warrant to purchase up to 750,511 shares of the Company' common stock at an exercise price of $0.50 per share to the placement agent.
The Company determined that these warrants (the “2014 Warrants”) required classification as a liability due to certain registration rights and listing requirements that required the Company to file a registration statement with the SEC for purposes of registering the resale of the shares underlying the 2014 Warrants. The 2014 Warrants also required classification as a liability due to provisions for potential exercise price adjustments. The Company determined that the fair value of the 2014 Warrants on their issuance date on February 21, 2014 was $12,382,216. These shares are currently registered with the SEC pursuant to the Post-Effective Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-195081) filed by the Company on April 30, 2015, which was declared effective by the SEC on May 4, 2015. Although the shares underlying the 2014 Warrants are currently registered, they still required liability classification due to the provisions for potential exercise price adjustments.

From July 20, 2015 through August 14, 2015, the Company offered a 26% discount on the warrant exercise prices to investors holding the 2014 Warrants. If and to the extent a holder did not exercise its 2014 Warrants at the reduced exercise prices during this time period, the exercise prices of any unexercised 2014 Warrants remain at their original exercise prices of $0.35 and $0.50 per share for the series A and series B 2014 Warrants, respectively. In exchange for the reduction in the warrant exercise price, the investors holding a majority of the 2014 Warrants agreed to amend the 2014 Warrants to remove the price-based anti-dilution adjustment provisions contained in the 2014 Warrants. The removal of these provisions from the 2014 Warrants eliminated the provision that required liability classification of the 2014 Warrants and quarterly non-cash adjustments reflecting changes in the fair value of the derivative liability on the Company’s financial statements. Except for the temporarily reduced exercise prices and elimination of the anti-dilution adjustment provisions in the 2014 Warrants, the terms of the 2014 Warrants remain unchanged. As a result of the amendment in the 2014 Warrants terms, the 2014 Warrants no longer require liability classification after August 14, 2015.

At the close of the offer period on August 14, 2015, investors exchanged and converted 27,856,294 shares underlying the 2014 Warrants at the 26% discount for total proceeds of $8,760,805. The amendment of the 2014 Warrants to reduce the exercise price required the Company to treat the adjustment as an exchange whereby it computed the fair value of the 2014 Warrants immediately prior to the price reduction and the fair value of the 2014 Warrants after the price reduction. The $1,197,821 change in the fair value of the 2014 Warrants as a result of the price reduction was treated as a loss on exchange and recorded in the Company's consolidated statements of operations during the three and nine months ended September 30, 2015.

As a result of the above transactions, the fair value of $5,348,408 on the 27,856,294 exercised 2014 Warrants and the fair value of $1,181,638 on the 7,930,456 remaining unexercised 2014 Warrants as of August 14, 2015 was moved to equity as of August 14, 2015.

2013 Activity:
From August 15, 2013 through September 23, 2013, the Company issued five-year warrants to purchase 7,118,236 shares of its common stock at an exercise price of $0.25 per share and five-year warrants to purchase 7,118,236 shares of its common stock at an exercise price of $0.50 per share pursuant to the terms of the Securities Purchase

Agreements entered into in connection with a private placement of its shares (the "2013 Private Placement"). The Company determined that these warrants (the “2013 Warrants”) required classification as a liability due to certain registration rights in the agreements that required the Company to file a registration statement with the SEC for purposes of registering the resale of the shares underlying the 2013 Warrants. The Company determined that the fair value of these warrants on their issuance date was $2,344,899.

The Company originally filed a registration statement on Form S-1 (No. 333-191743) with the SEC on October 16, 2013, which was declared effective by the SEC on November 8, 2013 for the registration of the resale of 174,732 shares underlying the 2013 Warrants. The Company subsequently filed a registration statement on Form S-1 (No. 333-197482) related to the resale of the remaining shares underlying the 2013 Warrants on July 17, 2014, which was declared effective by the SEC on July 29, 2014. As a result of the registration, the 2013 Warrants no longer require liability classification and their fair value of $3,166,482 was reclassified to equity in July 2014.

2012 Activity:

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The Company determined that 110,000 warrant shares issued in its September 2012 public offering still require classification as a liability due to certain registration rights and listing requirements in the agreements. The fair value and outstanding derivative warrant liability related to these warrant shares as of September 30, 2015 was $10,780.

2011 Activity:
The Company determined that 13,554 warrant shares remaining from its May 2011 Stock Offering and 250 warrant shares issued in July 2011 for a customer list acquisition still require classification as a liability due to certain registration rights and listing requirements in the agreements. The fair value and outstanding derivative warrant liability related to these warrant shares as of September 30, 2015 was $0.

During the three months ended September 30, 2015 and 2014, the Company recorded a gain of $115,904 and $2,250,344, respectively, due to the change in the fair value of its warrant liability. During the nine months ended September 30, 2015 and 2014, the Company recorded a loss of $2,139,540 and a gain of $5,625,555, respectively, due to the change in the fair value of its warrant liability.

The following table summarizes the Company's activity and fair value calculations of its derivative warrants for the year ended December 31, 2014 and the nine months ended September 30, 2015:

	Linked Common Shares to Derivative Warrants	Warrant Liability
Balance, December 31, 2013	14,360,276	$1,832,945
Issuance of warrants to investors in 2014 Private Placement	35,786,750	12,382,216
Reclassification of fair value of 2013 Private Placement warrants to equity	(14,236,472)	(3,166,482)
Change in fair value of derivatives	—	(7,845,214)
Balance, December 31, 2014	35,910,554	$3,203,465
Exercise of warrants for common stock	(27,856,294)	(5,348,408)
Loss on exchange of warrants	—	1,197,821
Reclassification of fair value of 2014 Private Placement warrants to equity	(7,930,456)	(1,181,638)
Change in fair value of derivatives	—	2,139,540
Balance, September 30, 2015	123,804	$10,780

The Company's warrants were valued on the applicable dates using a Binomial Lattice Option Valuation Technique (“Binomial”). Significant inputs into this technique as of December 31, 2014, August 14, 2015 and September 30, 2015 were as follows:

Binomial Assumptions	December 31, 2014	August 14, 2015	September 30, 2015
Fair market value of asset (1)	$0.28	$0.42	$0.42
Exercise price	$0.35-$1.25	$0.25-$0.50	$1.25
Term (2)	2.7 - 4.2 years	3.5 years	1.9 years
Implied expected life (3)	2.7 - 4.2 years	3.5 years	1.9 years
Volatility range of inputs (4)	42%--71%	41%--50%	95.72%
Equivalent volatility (3)	48%--54%	47.00%	96.00%
Risk-free interest rate range of inputs (5)	1.10%--1.38%	1.08%	$0.01
Equivalent risk-free interest rate (3)	1.10%--1.38%	1.08%	$0.01

(1) The fair market value of the asset was determined by using the Company's closing stock price as reflected in the over-the-counter market.
(2) The term is the contractual remaining term, allocated among twelve equal intervals for purposes of calculating other inputs, such as volatility and risk-free rate.

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

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(4) The Company does not have a market trading history upon which to base its forward-looking volatility. Accordingly, the Company selected peer companies that provided a reasonable basis upon which to calculate volatility for each of the intervals described in (2), above.
(5) The risk-free rates used for inputs represent the yields on zero coupon U.S. Government Securities with periods to maturity consistent with the intervals described in (2), above.

NOTE 5. COMMITMENTS & CONTINGENCIES

From time to time, the Company 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 harm the Company's business. Other than as described below, the Company is currently not aware of any legal proceedings or claims that it believes would or could have, individually or in the aggregate, a material adverse effect on its operations or financial position.

On October 17, 2012, Blue Calypso, Inc. filed a complaint against the Company alleging that the Company infringes their patents related to peer-to-peer advertising between mobile communication devices. On July 19, 2013, Blue Calypso’s case against the Company was consolidated, along with other patent infringement cases against Groupon, Inc., Yelp, Inc. and Foursquare Labs, Inc., into Blue Calypso, Inc. v. Groupon et al for all pretrial purposes, including discovery and claim construction.

On August 17, 2015, the Company entered into a settlement agreement with Blue Calypso ending all outstanding litigation between the two companies. Under the agreement, the Company agreed to pay Blue Calypso a settlement amount of $390,506, representing a royalty fee of 4.125% of revenue from the Company's legacy platforms: SocialSpark, Sponsored Tweets, and WeReward. This royalty fee was assessed on those legacy platforms from their inception until the time they were all discontinued by the end of 2014. Blue Calypso has dismissed with prejudice all pending litigation against the Company and has granted the Company a worldwide covenant not to sue covering the IZEAx and Ebyline platforms or any reasonable iteration thereof. The Company developed the IZEAx and Ebyline platforms in a manner such that it believes they do not infringe Blue Calypso's current patents.

The Company paid $200,000 upon execution of the agreement and is paying the balance in equal quarterly installments of $47,626.50 over 24 months beginning in November 2015. The Company recorded the entire amount of the settlement in general and administrative expense during the three and nine months ended September 30, 2015. The remaining balance owed of $190,506 is recorded in accrued expenses as of September 30, 2015.

NOTE 6. STOCKHOLDERS' EQUITY

Authorized Shares
The Company has 200,000,000 authorized shares of common stock and 10,000,000 authorized shares of preferred stock, each with a par value of $0.0001 per share.
On July 29, 2015, the Company’s Board of Directors approved an up to 1-for-25 reverse stock split of the Company’s outstanding shares of common stock. The reverse stock split was subsequently approved on August 6, 2015 by written consent of the holders of a majority of the Company’s issued and outstanding shares of common stock in lieu of a special meeting of the Company’s stockholders. The Company has filed a notification of the reverse stock split with FINRA Operations, but to date the reverse split has not yet been effectuated. The Company anticipates filing a Certificate of Amendment to its Articles of Incorporation with the State of Nevada, with an effective date of the reverse stock split in the near future. As the reverse stock split has not occurred as of the filing date of this Quarterly Report on Form 10-Q, no adjustment to share information is reflected in the financial statements contained in this Quarterly Report on Form 10-Q.

Warrant Transactions

Warrant Issuances:

On January 22, 2015, the Company issued a warrant to purchase 100,000 shares of its common stock to an investor relations consultant. The warrant has an exercise price of $0.51 per share and expires on January 22, 2020. The fair value of the warrant upon issuance was $7,700 and the Company received $100 as compensation for the warrant. The fair value of the warrant issuance was recorded as an increase in additional paid-in capital in the Company's consolidated balance sheet and the net $7,600 compensation expense was recorded in general and administrative expense during the nine months ended September 30, 2015.

On June 30, 2015, the Company issued a warrant to purchase 250,000 shares of its common stock to an investor relations consultant. The warrant has an exercise price of $0.51 per share and expires on June 30, 2020. The fair value of the warrant upon issuance was $44,250. The fair value of the warrant issuance was recorded as an increase in additional paid-in capital in the Company's consolidated balance sheet and compensation expense in general and administrative expense during the nine months ended September 30, 2015.

Warrant Exercises:
From July 20, 2015 through August 14, 2015, the Company offered a 25% discount on the warrant exercise prices to investors holding the series A and series B warrants to purchase common stock issued in its August - September 2013 private placement (the “2013 Warrants”) and a 26% discount on the warrant exercise prices to investors holding series A and series B warrants to purchase common stock issued in its February 2014 private placement (the “2014 Warrants” and together with the 2013 Warrants, the "Warrants"). If and to the extent a holder did not exercise its Warrants at the reduced exercise prices during this time period, the exercise prices of any unexercised Warrants remain at their original exercise prices of $0.25 and $0.50 per share for the series A and series B 2013 Warrants, respectively, and $0.35 and $0.50 per share for the series A and series B 2014 Warrants, respectively.

The warrant exercise offer was made pursuant to the terms of Warrant Amendment and Exercise Agreements, dated July 20, 2015, entered into with holders owning more than 70% of the Company's outstanding 2013 and 2014 Warrants. In exchange for the reduction in the warrant exercise price, the investors holding a majority of the 2014 Warrants agreed to amend the 2014 Warrants to remove the price-based anti-dilution adjustment provisions contained in the 2014 Warrants. The removal of these provisions from the 2014 Warrants eliminated the provision that required liability classification of the 2014 Warrants and quarterly non-cash adjustments reflecting changes in the fair value of the derivative liability on the Company’s financial statements. Except for the temporarily reduced exercise prices and elimination of the anti-dilution adjustment provisions in the 2014 Warrants, the terms of the 2013 Warrants and 2014 Warrants remain unchanged. As a result of the amendment in the 2014 Warrants terms, the 2014 Warrants no longer require liability classification after August 14, 2015 (See Note 4).

At the close of the offer period on August 14, 2015, investors exchanged and converted 27,856,294 shares underlying the 2014 Warrants at the 26% discount for total proceeds of $8,760,805 and 15,974,508 shares of the 2013 Warrants at the 25% discount for total proceeds of $4,100,252. This resulted in the issuance of a total of 43,830,802 shares of common stock at an average exercise price of $0.293 per share for total proceeds of $12,861,057 less $3,972 in transaction costs. The exercise prices of any Warrants not exercised during the Warrant conversion offer period have reverted back to their original exercise prices.

The amendment of the Warrants to reduce the exercise price required the Company to treat the adjustment as an exchange whereby it computed the fair value of the Warrants immediately prior to the price reduction and the fair value of the Warrants after the price reduction. The $1,197,821 and the $647,989 change in the fair value of the 2014 and 2013 Warrants, respectively, as a result of the price reduction, was treated as a $1,845,810 loss on exchange and recorded in the Company's consolidated statements of operations during the three and nine months ended September 30, 2015.

As a result of the above transactions, the fair value of $5,348,408 on the 27,856,294 exercised 2014 Warrants and the fair value of $1,181,638 on the 7,930,456 remaining unexercised 2014 Warrants as of August 14, 2015 was moved to equity as of August 14, 2015. This reclassification plus the$647,989 loss on exchange of the 2013 Warrants already classified as equity reflects the $7,178,035 total change recorded in the Company's consolidated statement of stockholders' equity.

The resale of the common stock underlying the 2013 and 2014 Warrants is covered by IZEA’s Registration Statements on Form S-1 (Registration Nos. 333-191743, 333-195081 and 333-197482), which are on file with the Securities and Exchange Commission.

As of September 30, 2015, the Company has outstanding warrants to purchase a total of 10,461,863 shares of common stock outstanding with an average exercise price of $0.46 per share.

Stock Options

In May 2011, the Board of Directors adopted the 2011 Equity Incentive Plan of IZEA, Inc. (the “May 2011 Plan”). The May 2011 Plan allows the Company to grant options to purchase up to 20,000,000 shares as an incentive for its employees and consultants. As of September 30, 2015, the Company had 5,207,283 shares of common stock available for future grants under the May 2011 Plan.

On August 22, 2011, the Company adopted the 2011 B Equity Incentive Plan (the “August 2011 Plan”) reserving for issuance an aggregate of 87,500 shares of common stock under the August 2011 Plan. As of September 30, 2015, the Company had no shares of common stock available for future grants under the August 2011 Plan.

Under both the May 2011 Plan and the August 2011 Plan (together, the "2011 Equity Incentive Plans"), the Board of Directors determines the exercise price to be paid for the shares, the period within which each option may be exercised, and the terms and conditions of each option. The exercise price of the incentive and non-qualified stock options may not be less than 100% of the fair market value per share of the Company’s common stock on the grant date. If an individual owns stock representing more than

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10% of the outstanding shares, the price of each share of an incentive stock option must be equal to or exceed 110% of fair market value. Unless otherwise determined by the Board of Directors at the time of grant, the right to purchase shares covered by any options under the 2011 Equity Incentive Plans typically vest over the requisite service period as follows: 25% of options shall vest one year from the date of grant and the remaining options shall vest monthly, in equal increments over the following three years. The term of the options is up to ten years. The Company issues new shares to the optionee for any stock awards or options exercised pursuant to its equity incentive plans.

A summary of option activity under the 2011 Equity Incentive Plans for the year ended December 31, 2014 and the nine months ended September 30, 2015 is presented below:

Options Outstanding	Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Outstanding at December 31, 2013	7,750,478	$0.51	8.1
Granted	4,358,831	$0.38	
Exercised	(1,250)	$0.24	
Forfeited	(194,285)	$0.85	
Outstanding at December 31, 2014	11,913,774	$0.46	6.5
Granted	3,751,022	$0.36	
Exercised	—	$—	
Forfeited	(787,063)	$0.35	
Outstanding at September 30, 2015	14,877,733	$0.44	6.7
Exercisable at September 30, 2015	6,614,375	$0.53	6.3

During the three and nine months ended September 30, 2015, no options were exercised. During the twelve months ended December 31, 2014, options were exercised into 1,250 shares of common stock for cash proceeds of $300. The intrinsic value of these options was $295. There is no aggregate intrinsic value on the outstanding or exercisable options as of September 30, 2015 since the weighted average exercise price per share exceeded the fair value of $0.42 on such date.

A summary of the nonvested stock option activity under the 2011 Equity Incentive Plans for the year ended December 31, 2014 and the nine months ended September 30, 2015 is presented below:

Nonvested Options	Common Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Years to Vest
Nonvested at December 31, 2013	5,809,363	$0.24	3.3
Granted	4,358,831	0.38	
Vested	(2,566,848)	0.23	
Forfeited	(159,508)	0.21	
Nonvested at December 31, 2014	7,441,838	$0.20	3.0
Granted	3,751,022	0.19	
Vested	(2,164,147)	0.22	
Forfeited	(765,355)	0.17	
Nonvested at September 30, 2015	8,263,358	$0.19	2.8

Stock-based compensation cost related to stock options granted under the 2011 Equity Incentive Plans is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes option-pricing model that uses the assumptions stated in Note 1. Total stock-based compensation expense recognized on awards outstanding during the three months ended September 30, 2015 and 2014 was $188,458 and $142,252, respectively. Total stock-based compensation expense recognized on awards outstanding during the nine months ended September 30, 2015 and 2014 was $511,202 and $389,002, respectively. Stock-based compensation expense is recorded as a general and administrative expense in the Company's consolidated statements of operations. Future compensation related to nonvested awards expected to vest of $1,400,936 is estimated to be recognized over the weighted-average vesting period of approximately three years.

IZEA, Inc.
Notes to the Unaudited Consolidated Financial Statements

Employee Stock Purchase Plan
On April 16, 2014, stockholders holding a majority of the Company's outstanding shares of common stock, upon previous recommendation and approval of the Board of Directors, adopted the IZEA, Inc. 2014 Employee Stock Purchase Plan (the "ESPP") and reserved 1,500,000 shares of the Company's common stock for issuance thereunder. Any employee regularly employed by our company for 90 days or more on a full-time or part-time basis (20 hours or more per week on a regular schedule) is eligible to participate in the ESPP. The ESPP operates in successive six month offering periods commencing at the beginning of each fiscal year half. Each eligible employee who has elected to participate may purchase up to 10% of their annual compensation in common stock not to exceed $21,250 annually or 20,000 shares per offering period. The purchase price will be the lower of (i) 85% of the fair market value of a share of common stock on the first trading day of the offering period or (ii) 85% of the fair market value of a share of common stock on the last trading day of the offering period. The ESPP will continue until January 1, 2024, unless otherwise terminated by the Board. As of September 30, 2015, employees paid $29,765 to purchase 125,046 shares at the end of the offering periods. As of September 30, 2015, the Company had 1,367,351 remaining shares of common stock available for future grants under the ESPP.

Restricted Stock Issuances
Effective January 1, 2014, the Company entered into a one year agreement to pay $7,500 per month and 100,000 shares of restricted stock per quarter to a firm to provide investor relations services. In accordance with the agreement, the Company issued 100,000 shares of restricted common stock valued at $30,110 on January 1, 2014 and 100,000 shares of restricted common stock valued at $52,000 on April 1, 2014. This agreement was canceled in June 2014 and no further amounts are owed.

The Company issued 192,432 shares of restricted common stock valued at $75,000 to its directors for their service as directors of the Company during the year ended December 31, 2014.

The Company has reserved 196,134 shares of restricted common stock valued at $76,042 for future issuance to its directors for their service as directors of the Company during the nine months ended September 30, 2015.

On April 30, 2015, the Company issued 25,000 shares of restricted common stock valued at $8,700 for an employee stock award during the nine months ended September 30, 2015.

Per the terms of the Ebyline Stock Purchase Agreement (See Note 2), the Company issued 636,294 shares of its common stock valued at $250,000 ($.3929 per common share) to satisfy its payment obligation on July 30, 2015.

On August 15, 2015, the Company issued 1,687,500 shares of restricted common stock to a director for shares that were granted to him in 2013 as consideration for loans made to the Company.

The following table contains summarized information about nonvested restricted stock outstanding during the year ended December 31, 2014 and the nine months ended September 30, 2015:

Restricted Stock	Common Shares
Nonvested at December 31, 2013	—
Granted	392,432
Vested	(392,432)
Forfeited	—
Nonvested at December 31, 2014	—
Granted	221,134
Vested	(221,134)
Forfeited	—

Nonvested at September 30, 2015	—

Total stock-based compensation expense recognized for vested restricted stock awards during the three months ended September 30, 2015 and 2014 was $31,251 and $18,750, respectively, all of which is included in general and administrative expense in the consolidated statements of operations. Total stock-based compensation expense recognized for vested restricted stock awards during the nine months ended September 30, 2015 and 2014 was $84,742 and $147,860, respectively. The fair value of the services is based on the value of the Company's common stock over the term of service.

IZEA, Inc.
Notes to the Unaudited Consolidated Financial Statements

NOTE 7. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per share is computed by dividing the net income or loss by the weighted-average number of shares of common stock outstanding during each period presented. Diluted earnings per share is computed by dividing the net income or loss by the weighted-average number of shares of common stock outstanding plus the additional dilutive securities that could be exercised or converted into common shares during each period presented less the amount of shares that could be repurchased using the proceeds from the exercises.

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net Income (Loss)	$(2,645,087)	$685,370	$(8,901,290)	$2,145,194
Weighted average shares outstanding - basic	81,512,092	57,350,743	65,728,626	50,584,635
Basic income (loss) per share	$(0.03)	$0.01	$(0.14)	$0.04
Net Income (Loss)	$(2,645,087)	$685,370	$(8,901,290)	$2,145,194
Weighted average shares outstanding - basic	81,512,092	57,350,743	65,728,626	50,584,635
Potential shares from "in-the-money" options	—	8,156,507	—	7,706,548
Potential shares from "in-the-money" warrants	—	28,953,989	—	25,746,789
Potential shares from converted restricted stock units	—	1,781,503	—	1,742,146
Less: Shares assumed repurchased under the Treasury Stock Method	—	(26,813,749)	—	(22,116,926)
Weighted average shares outstanding - diluted	81,512,092	69,428,993	65,728,626	63,663,192
Diluted income (loss) per share	$(0.03)	$0.01	$(0.14)	$0.03

The Company excluded the following weighted average items from the above computation of diluted earnings per common share as their effect would be anti-dilutive:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Stock options	14,776,405	1,699,021	14,140,347	1,004,445
Warrants	31,900,848	25,135,499	46,572,904	21,727,235
Restricted stock units	988,414	—	1,494,768	—
Total excluded shares	47,665,667	26,834,520	62,208,019	22,731,680

NOTE 8. SUBSEQUENT EVENTS

No material events have occurred after September 30, 2015 that require recognition or disclosure in the financial statements.

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

Special Note Regarding Forward-Looking Information

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, our consolidated financial statements and related notes included elsewhere in this report. Historical results and percentage relationships among any amounts in these financial statements are not necessarily indicative of trends in operating results for any future period. This report contains “forward-looking statements.” The statements, which are not historical facts contained in this report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, and notes to our consolidated financial statements, particularly those that utilize terminology such as “may” “will,” “should,” “expects,” “anticipates,” “estimates,” “believes,” or “plans” or comparable termin are forward-looking statements. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and our actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, our ability to raise additional funding, our ability to maintain and grow our business, variability of operating results, our ability to maintain and enhance our brand, our development and introduction of new products and services, the successful integration of acquired companies, technologies and assets into our portfolio of software 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 SEC.

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, except as required by law. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Company History

IZEA, Inc. was founded in February 2006 under the name PayPerPost, Inc. and became a public company incorporated in the state of Nevada in May 2011. We are headquartered in Orlando, Florida with additional offices in Chicago and Los Angeles.

Company Overview

IZEA, Inc. is a leading company in the social sponsorship space. We believe that we pioneered the concept of a marketplace for sponsorships on the social web in 2006 with the launch of our first platform, PayPerPost.com, and have focused on scaling our offerings ever since. We democratize the sponsorship process, allowing everyone from college students and stay at home moms to celebrities the opportunity to monetize their content, creativity and influence in social media. We direct bloggers, tweeters and other types of social media content creators to share information about companies, products, websites and events within their social media content streams. Advertisers benefit from buzz, traffic, awareness and sales, and creators earn cash compensation in exchange for their posts.

On January 30, 2015, we purchased all of the outstanding shares of capital stock of Ebyline, Inc. (“Ebyline”), pursuant to the terms of a Stock Purchase Agreement, dated as of January 27, 2015, by and among IZEA, Ebyline and the stockholders of Ebyline. Based in Los Angeles, California, Ebyline operates an online marketplace that enables publishers to access a network of over 12,000 content creators ranging from writers to illustrators in 73 countries. Over 2,000 fully vetted individuals in the Ebyline network have professional journalism credentials with backgrounds at well-known media outlets. Ebyline’s proprietary workflow is utilized by leading media organizations to obtain the content they need from professional content creators. In addition to publishers, Ebyline is leveraged by brands to produce custom branded content for use on their owned and operated sites, as well as third party content marketing and native advertising efforts. As described herein, our acquisition of Ebyline has significantly contributed to the increase in our revenues and cost of sales during 2015 as compared to 2014.

We derive revenue from three sources: revenue from an advertiser when it pays for a social media publisher or influencer such as a blogger or tweeter ("creators") to share sponsored content with their social network audience ("Sponsored Revenue"), revenue when a publisher or company purchases custom branded content for use on its owned and operated sites, as

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well as third party content marketing and native advertising efforts ("Content Revenue") and revenue derived from various service and license fees charged to users of our platforms ("Service Fee Revenue").

We operate the Ebyline online marketplace and our own online marketplace that connects brands with creators at IZEA.com as well as other white label marketplaces. IZEA.com and all white label sites are powered by the IZEA Exchange (“IZEAx”), a platform that handles content workflow, creator search and targeting, bidding, analytics and payment processing. IZEAx takes the existing concepts of product placement and endorsements commonly found in movies, television and radio and applies them to the social web. IZEAx is designed to provide a unified ecosystem that enables the creation of multiple types of content including blog posts, status updates, videos and photos through a wide variety of social channels including blogs, Twitter, Facebook, Instagram and Tumblr, among others. Prior to the launch of IZEAx, we had independent technology platforms including PayPerPost.com, SocialSpark.com and SponsoredTweets.com, all of which were transitioned to the IZEAx system by the end of 2014.

Results of Operations for the Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014

	(Unaudited) Three Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change
Revenue	$5,442,457	$1,931,671	$3,510,786	181.7 %
Cost of sales	3,290,457	692,217	2,598,240	375.4 %
Gross profit	2,152,000	1,239,454	912,546	73.6 %
Operating expenses:				
General and administrative	1,056,473	1,287,048	(230,575)	(17.9)%
Sales and marketing	1,982,088	1,515,139	466,949	30.8 %
Total operating expenses	3,038,561	2,802,187	236,374	8.4 %
Loss from operations	(886,561)	(1,562,733)	676,172	43.3 %
Other income (expense):				
Interest expense	(31,191)	(5,519)	(25,672)	465.2 %
Loss on exchange of warrants	(1,845,810)	—	(1,845,810)	100.0 %
Change in fair value of derivatives, net	115,904	2,250,344	(2,134,440)	(94.8)%
Other income, net	2,571	3,278	(707)	(21.6)%
Total other income (expense)	(1,758,526)	2,248,103	(4,006,629)	178.2 %
Net income (loss)	$(2,645,087)	$685,370	$(3,330,457)	485.9 %

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), we consider certain financial measures that are not prepared in accordance with U.S. GAAP, including Operating EBITDA. These non-GAAP financial measures are not based on any standardized methodology prescribed by GAAP. These non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

We believe that Operating EBITDA provides useful information to investors as it excludes transactions not related to the core cash operating business activities including non-cash transactions. We believe that excluding these transactions allows investors to meaningfully trend and analyze the performance of our core cash operations. All companies do not calculate EBITDA in the same manner, and Operating EBITDA as presented by IZEA may not be comparable to EBITDA presented by other companies. IZEA defines Operating EBITDA as earnings or loss before interest, taxes, depreciation and amortization, non-cash stock related compensation, gain or loss on asset disposals, changes in contingent acquisition costs, or impairment and all other income and expense items such as loss on exchanges and changes in fair value of derivatives, if applicable.

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Reconciliation of Net Loss to Operating EBITDA:	(Unaudited) Three Months Ended September 30, 2015	September 30, 2014
Net income (loss)	$(2,645,087)	$685,370
Non-cash stock-based compensation	188,458	142,252
Non-cash stock issued for payment of services	31,251	18,750
Change in the fair value of derivatives	(115,904)	(2,250,344)
Loss on exchange of warrants	1,845,810	—
Loss on disposal of equipment	595	16,593
Gain on change in value of contingent acquisition costs payable	(1,734,300)	—
Interest expense	31,191	5,519
Depreciation & amortization	230,553	72,309
Operating EBITDA	$(2,167,433)	$(1,309,551)

Revenues

The following table breaks down our approximate revenue, cost of sales and gross profit by revenue stream as of the three months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015	September 30, 2015		September 30, 2014	September 30, 2014	
Revenue & % of Total						
Sponsored Revenue	$3,232,000	59	%	$1,787,000	92	%
Content Revenue	$2,166,000	40	%	$—	—	%
Service Fees & Other	$45,000	1	%	$145,000	8	%
Total Revenue	$5,443,000	100	%	$1,932,000	100	%
Cost of Sales & % of Total						
Sponsored Revenue	$1,361,000	41	%	$692,000	100	%
Content Revenue	$1,930,000	59	%	$—	—	%
Service Fees & Other	$—	—	%	$—	—	%
Total Cost of Sales	$3,291,000	100	%	$692,000	100	%
Gross Profit & Profit %						
Sponsored Revenue	$1,871,000	58	%	$1,095,000	61	%
Content Revenue	$236,000	11	%	$—	—	%
Service Fees & Other	$45,000	100	%	$145,000	100	%
Total Profit	$2,152,000	40	%	$1,240,000	64	%

Revenues for the three months ended September 30, 2015 increased by $3,510,786, or 182%, compared to the same period in 2014. The increase was primarily attributable to increases in our Sponsored Revenue of $1,445,000 and Content Revenue of $2,166,000 during the three months ended September 30, 2015 compared to the same period in 2014. Our sales mix has changed in the current year due to the acquisition of Ebyline in January 2015. The increase in Sponsored Revenue income was primarily attributable to our larger sales force, concentrated sales efforts toward larger IZEA managed campaigns rather than smaller advertiser self-service campaigns and generating repeat business from existing customers. Content Revenue increased as a result of the Ebyline acquisition in January 2015. Service fees decreased in the three months ended September 30, 2015 due to less fees received from inactive accounts since there are relatively few inactive accounts in IZEAx.

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Our net bookings of $6.7 million for the three months ended September 30, 2015 were over 230% higher than the net bookings of $2.0 million for the three months ended September 30, 2014. Net bookings is a measure of sales orders minus any cancellations or refunds in a given period. Management uses net bookings as a leading indicator of future revenue recognition as revenue is typically recognized within 90 days of booking. We experienced higher bookings as a result of the Ebyline acquisition, new customers, larger IZEA managed campaigns and an increase in repeat clients. These bookings are expected to translate into higher revenue in 2015 as compared to 2014.

Cost of Sales and Gross Profit

Our cost of sales is comprised primarily of amounts paid to our content creators to provide content or advertising services through the pushing of sponsored content through a blog post, tweet, click or action.

Cost of sales for the three months ended September 30, 2015 increased by $2,598,240, or 375%, compared to the same period in 2014. The increase in cost of sales was primarily related to the increase in our sales and higher cost on 40% of those sales related to Content Revenue.

Gross profit for the three months ended September 30, 2015 increased by $912,546, or 74%, compared to the same period in 2014. Our gross profit as a percentage of revenue decreased from 64% for the three months ended September 30, 2014 to 40% for the same period in 2015. The gross profit decrease during the three months ended September 30, 2015 compared to 2014 was primarily attributable to substantially lower profit margins on Content Revenue that was added to our product mix during the three months ended September 30, 2015.

During the three months ended September 30, 2015, we generated a gross profit of 11% on 40% of our total revenue related to sales of Content. Prior to being acquired by IZEA, Ebyline generated Content Revenue primarily from newspaper and traditional publishers through their workflow platform on a self-service basis at a 7%-9% profit. After the acquisition, these customers still produce a significant amount of revenue, but we are increasing the sales of Content to customers on a managed basis and expect to see continued improvement in the Content margins. The mix of sales between our higher margin Sponsored Revenue and our lower margin Content Revenue (particularly the self-service workflow portion of this revenue) has a significant affect on our overall gross profit percentage. As a result of the changes in our sales mix, we expect that our total revenue will increase but our margins will decrease to an expected range of 35%-40%.

Operating Expenses

Operating expenses consist of general and administrative expenses, contingent acquisition cost adjustments and sales and marketing expenses. Total operating expenses for the three months ended September 30, 2015 increased by $236,374, or 8.4%, compared to the same period in 2014. The increase was primarily attributable to increased personnel costs and additional overhead from the Ebyline acquisition.

General and administrative expenses consist primarily of administrative and engineering personnel costs, general operating costs, public company costs, including non-cash stock compensation, facilities costs, insurance, depreciation, professional fees, and investor relations costs. General and administrative expenses for the three months ended September 30, 2015 decreased by $(230,575), or (17.9)%, compared to the same period in 2014. General and administrative expenses increased due to a $568,000 increase in personnel costs as a result of the increase in the average number of our administrative and engineering personnel by nearly 50% since the prior year period. Additionally contributing to the increase in personnel costs, there was an increase in bonus expenses as a result of a $200,000 one-time discretionary bonus award to our chief executive officer in in the third quarter of 2015. Increased personnel costs are expected to continue in 2015 due to the realization of an entire year of salaries, taxes and benefits for the new personnel hires in late 2014 and early 2015 along with planned increases in the total number of entry and higher level engineering personnel. The increase in general and administrative expenses is also attributable to a $496,000 increase in legal & litigation fees primarily for the active defense and settlement costs in our patent ligation with Blue Calypso. On August 17, 2015, we entered into a $390,506 settlement agreement with Blue Calypso ending all outstanding patent litigation. Therefore, we expect that future legal fees will decrease substantially compared to prior quarters. We also had a $158,000 increase in depreciation and amortization expense as a result of the amortization of software development costs for IZEA Exchange (IZEAx) and the Ebyline intangible assets acquired; a $52,000 increase in public company costs due to the addition of additional board members and investor relations services, a $46,000 increase in stock compensation, and a $54,000 increase in rent for our expanded facilities and additional offices in California.

General and administrative expense increases were reduced by a gain of $1,734,300 during three months ended September 30, 2015 due to the reduction in our estimated fair value of contingent acquisition costs payable. On January 30,

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2015, we purchased all of the outstanding shares of capital stock of Ebyline, pursuant to the terms of a Stock Purchase Agreement, dated as of January 27, 2015, by and among IZEA, Ebyline and the stockholders of Ebyline. The aggregate consideration payable by us will be an amount in the aggregate of up to $8,850,000, including a cash payment at closing of $1,200,000, a stock issuance valued at $250,000 paid on July 30, 2015, $1,877,064 in two equal installments of $938,532 on the first and second anniversaries of the closing, and up to $5,500,000 in contingent performance payments based on Ebyline meeting certain revenue targets for each of the three years ending December 31, 2015, 2016 and 2017. We initially valued the fair value of the contingent payments at $2,210,000 using a Monte-Carlo simulation to simulate revenue over the next three years. Of this amount, $357,700 was determined to be future compensation expense and the $1,834,300 remainder was determined to be purchase consideration and recorded as acquisition costs payable. During the three months ended September 30, 2015, we reassessed the expected revenues to be produced from Content-Only Revenues over the next three years and do not believe that they will meet the revenue targets required to achieve the performance payments. The revised calculations using the Monte Carlo simulation as of September 30, 2015 resulted in a calculated fair value of $100,000. Therefore, we recorded a gain of $1,734,300 for the three months ended September 30, 2015 due to the reduction in our estimated fair value of contingent acquisition costs payable.

Sales and marketing expenses consist primarily of costs personnel costs related to those who support sales and marketing efforts, promotional and advertising costs and trade show expenses. Sales and marketing expenses for the three months ended September 30, 2015 increased by $466,949 or 30.8%, compared to the same period in 2014. The increase was primarily attributable to the increase in personnel costs as a result of a 24% increase in the number of our sales personnel since the prior year and $146,000 in increased commissions as a result of the increase in customer bookings.

Other Income (Expense)

Other income (expense) consists primarily of interest expense, loss on exchange of warrants and the change in the fair value of derivatives.

Interest expense during the three months ended September 30, 2015 increased by $25,672 compared to the same period in 2014 primarily due to the imputed interest on the acquisition costs payable.

From July 20, 2015 through August 14, 2015, we offered a 25% discount on the warrant exercise prices to investors holding the series A and series B warrants to purchase common stock issued in its August - September 2013 private placement (the “2013 Warrants”) and a 26% discount on the warrant exercise prices to investors holding series A and series B warrants to purchase common stock issued in its February 2014 private placement (the “2014 Warrants” and together with the 2013 Warrants, the "Warrants"). At the close of the offer period on August 14, 2015, Warrants for a total of 43,830,802 shares of common stock were exercised and converted into common stock at an average exercise price of $0.293 per share for total proceeds of $12,861,057 less $3,972 in transaction costs. The amendment of Warrants to reduce the exercise price required the Company to treat the adjustment as an exchange whereby it computed the fair value of the Warrants immediately prior to the price reduction and the fair value of the Warrants after the price reduction. The $1,845,810 change in the fair value of the Warrants as a result of the price reduction was treated as a loss on exchange and recorded in the consolidated statements of operations during the three months ended September 30, 2015.

In prior periods, we entered into financing transactions that gave rise to derivative liabilities. These financial instruments are carried at fair value in our financial statements. Changes in the fair value of derivative financial instruments are required to be recorded in other income (expense) in the period of change. We recorded a gain of $115,904 and $2,250,344 resulting from the decrease in the fair value of certain warrants during the three months ended September 30, 2015 and 2014, respectively. We have no control over the amount of change in the fair value of our derivative instruments as this is a factor based on fluctuating interest rates and stock prices and other market conditions outside of our control. Due to the large exercise of warrants in August 2015 resulting in less remaining warrants requiring valuation in the future, we believe that these fluctuations will dramatically decrease in future periods. We have 123,804 warrants that are required to be fair valued each period. When the price of our stock decreases, it causes the fair value of our warrant liability in our consolidated balance sheets to decrease creating a gain from the change in fair value in our consolidated statement of operations. Alternatively, when the price of our stock increases, it causes the fair value of our warrant liability to increase causing a loss from the change in fair value.

Net Loss

Net loss for the three months ended September 30, 2015 was $2,645,087, which decreased from net income of $685,370 for the same period in 2014. The reduction in net income was primarily the result of the increase in operating expenses and the change in the fair value of derivative financial instruments as discussed above.

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Results of Operations for the Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014

	(Unaudited) Nine Months Ended September 30, 2015	September 30, 2014	$ Change	% Change
Revenue	$14,205,693	$5,857,946	$8,347,747	142.5 %
Cost of sales	8,649,308	1,998,406	6,650,902	332.8 %
Gross profit	5,556,385	3,859,540	1,696,845	44.0 %
Operating expenses:				
General and administrative	5,081,367	3,600,621	1,480,746	41.1 %
Sales and marketing	5,310,124	3,726,370	1,583,754	42.5 %
Total operating expenses	10,391,491	7,326,991	3,064,500	41.8 %
Loss from operations	(4,835,106)	(3,467,451)	(1,367,655)	(39.4)%
Other income (expense):				
Interest expense	(86,354)	(20,587)	(65,767)	319.5 %
Loss on exchange of warrants	(1,845,810)	—	(1,845,810)	100.0 %
Change in fair value of derivatives, net	(2,139,540)	5,625,555	(7,765,095)	(138.0)%
Other income, net	5,520	7,677	(2,157)	(28.1)%
Total other income (expense)	(4,066,184)	5,612,645	(9,678,829)	172.4 %
Net income (loss)	$(8,901,290)	$2,145,194	$(11,046,484)	514.9 %

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), we consider certain financial measures that are not prepared in accordance with U.S. GAAP, including Operating EBITDA. These non-GAAP financial measures are not based on any standardized methodology prescribed by GAAP. These non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

We believe that Operating EBITDA provides useful information to investors as it excludes transactions not related to the core cash operating business activities including non-cash transactions. We believe that excluding these transactions allows investors to meaningfully trend and analyze the performance of our core cash operations. All companies do not calculate EBITDA in the same manner, and Operating EBITDA as presented by IZEA may not be comparable to EBITDA presented by other companies. IZEA defines Operating EBITDA as earnings or loss before interest, taxes, depreciation and amortization, non-cash stock related compensation, gain or loss on asset disposals or impairment, changes in contingent acquisition costs, and all other income and expense items such as loss on exchanges and changes in fair value of derivatives, if applicable.

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Reconciliation of Net Loss to Operating EBITDA:	(Unaudited)	
	Nine Months Ended	
	September 30, 2015	September 30, 2014
Net income (loss)	$(8,901,290)	$2,145,194
Non-cash stock-based compensation	511,202	389,002
Non-cash stock issued for payment of services	136,592	147,860
Change in the fair value of derivatives	2,139,540	(5,625,555)
Loss on exchange of warrants	1,845,810	—
Loss on disposal of equipment	595	16,192
Gain on change in value of contingent acquisition costs payable	(1,734,300)	—
Interest expense	86,354	20,587
Depreciation & amortization	631,060	160,495
Operating EBITDA	$(5,284,437)	$(2,746,225)

Revenues

The following table breaks down our approximate revenue, cost of sales and gross profit by revenue stream as of the nine months ended September 30, 2015 and 2014:

	Nine Months Ended			
	September 30, 2015	September 30, 2015	September 30, 2014	September 30, 2014
Revenue & % of Total				
Sponsored Revenue	$8,375,000	59 %	$5,473,000	93 %
Content Revenue	$5,686,000	40 %	$—	— %
Service Fees & Other	$145,000	1 %	$385,000	7 %
Total Revenue	$14,206,000	100 %	$5,858,000	100 %
Cost of Sales & % of Total				
Sponsored Revenue	$3,570,000	41 %	$1,998,000	100 %
Content Revenue	$5,080,000	59 %	$—	— %
Service Fees & Other	$—	— %	$—	— %
Total Cost of Sales	$8,650,000	100 %	$1,998,000	100 %
Gross Profit & Profit %				
Sponsored Revenue	$4,805,000	57 %	$3,475,000	63 %
Content Revenue	$606,000	11 %	$—	— %
Service Fees & Other	$145,000	100 %	$385,000	100 %
Total Profit	$5,556,000	39 %	$3,860,000	66 %

Revenues for the nine months ended September 30, 2015 increased by $8,347,747, or 143%, compared to the same period in 2014. The increase was primarily attributable to increases in our Sponsored Revenue of $2,902,000 and Content Revenue of $5,686,000 during the nine months ended September 30, 2015 compared to the same period in 2014. Our sales mix has changed in the current year due to the acquisition of Ebyline in January 2015. The increase in Sponsored Revenue income was primarily attributable to our larger sales force, concentrated sales efforts toward larger IZEA managed campaigns rather than smaller advertiser self-service campaigns and generating repeat business from existing customers. Content Revenue increased as a result of the Ebyline acquisition in January 2015. Service fees decreased in the nine months ended September 30, 2015 due to less fees received from inactive accounts since there are relatively few inactive accounts in IZEAx.

Our net bookings of $17.2 million for the nine months ended September 30, 2015 were 174% higher than the net bookings of $6.3 million for the nine months ended September 30, 2014. Net bookings is a measure of sales orders minus any cancellations or refunds in a given period. Management uses net bookings as a leading indicator of future revenue recognition as revenue is typically recognized within 90 days of booking. We experienced higher bookings as a res