

IZEA Worldwide, Inc.  
Form 10-K  
March 28, 2019  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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.: 001-37703

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

Nevada 37-1530765  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

480 N. Orlando Avenue, Suite 200 32789  
Winter Park, FL  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:  
Title of each class Name of each exchange on which registered  
Common Stock, par value \$0.0001 per share The Nasdaq Capital Market

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 29, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was \$4,426,599 based on the closing bid price of the registrant's common stock (its only outstanding equity security) of \$0.95 per share on that date. All executive officers and directors of the registrant and all 10% or greater stockholders have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of March 26, 2019, there were 12,824,602 shares of our common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

Cautionary Note Regarding Forward-Looking Information

This Annual Report on Form 10-K (this “Annual Report”) contains “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. The statements, which are not historical facts contained in this report, including those contained in Management’s Discussion and Analysis of Financial Condition and Results of Operations, and the notes to our consolidated financial statements, particularly those that utilize terminology such as “may,” “will,” “would,” “could,” “should,” “expects,” “anticipates,” “anticipates,” “estimates,” “believes,” “intends,” “likely,” “projects,” “plans,” “pursue,” “strategy” or “future,” or the negative of these words or other words or expressions of similar meaning, are forward-looking statements. Such statements are based on currently available operating, financial and competitive information, and are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict and many of which are outside of our control. Future events and our actual results and financial condition may differ materially from those reflected in these forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause these differences include, but are not limited to, the following:

- our ability to raise additional funding;
- our ability to issue shares to settle future acquisition costs payable;
- customer cancellations;
- our ability to maintain and grow our business;
- variability of operating results;
- our ability to establish effective disclosure controls and procedures and internal control over financial reporting;
- our ability to satisfy the requirements for continued listing of our common stock on the Nasdaq Capital Market;
- 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 customers;
- 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 the other risks and uncertainties described in the Risk Factors section of this Annual Report.

All forward-looking statements in this document are based on our current expectations, intentions and beliefs using information currently available to us as of the date of this Annual 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.

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### ITEM 1 – BUSINESS

#### Our Mission

Our mission is to champion the world's creators by helping them monetize their content, creativity, and influence.

#### Our Business

IZEA Worldwide, Inc. (together with its wholly-owned subsidiaries, “we,” “us,” “our,” “IZEA” or the “Company”) is a Nevada corporation that was founded in February 2006 under the name PayPerPost, Inc. and became a public company in May 2011. In January 2015, IZEA purchased all of the outstanding shares of capital stock of Ebyline, Inc. (“Ebyline”). In July 2016, IZEA purchased all the outstanding shares of capital stock of ZenContent, Inc. (“ZenContent”). The legal entity of ZenContent was dissolved in December 2017 after all assets and transactions were transferred to IZEA. In March 2016, we formed IZEA Canada, Inc., a wholly-owned subsidiary incorporated in Ontario, Canada, to operate as a sales and support office for IZEA's Canadian customers. On July 26, 2018, we merged with TapInfluence, Inc. (“TapInfluence”) pursuant to the terms of an Agreement and Plan of Merger dated as of July 11, 2018 and amended July 20, 2018.

Effective August 20, 2018, we changed our name from IZEA, Inc. to IZEA Worldwide, Inc. Our Company is headquartered near Orlando, Florida with additional offices in California, Colorado, Illinois, New York and Canada.

IZEA creates and operates online marketplaces that connect marketers with content creators. The creators are compensated by IZEA for producing unique content such as long and short form text, videos, photos, status updates, and illustrations for marketers or distributing such content on behalf of marketers through their personal websites, blogs, and social media channels. Our technology brings the marketers and creators together, enabling their transactions to be completed at scale through the management of custom content workflow, creator search and targeting, bidding, analytics and payment processing.

Marketers, including brands, agencies, and publishers, engage us to gain access to our industry expertise, technology, analytics, and network of creators. The majority of the marketers engage us to perform these services on their behalf, but they also have the ability to use our marketplaces on a self-service basis. Our technology is used for two primary purposes: the engagement of creators for influencer marketing campaigns and the engagement of creators to create stand-alone custom content for the marketers' own use and distribution.

**Influencer Marketing.** We work with marketers to enable influencer marketing campaigns at scale. A subset of influencer marketing known as “Sponsored Social” is when a company compensates an online influencer such as a blogger or tweeter (“creators”) to share sponsored content with the creator's social network following. This sponsored content is included within the body of the content stream. 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. We have focused on scaling our product and service offerings ever since, including by acquiring TapInfluence in July 2018.

**Custom Content.** We also work with marketers to augment or replace their content development efforts. Our network of creators produces editorial and marketing content that can be published both online and offline. Our network of creators includes professional journalists, subject matter experts, bloggers and everyday content creators, allowing our customers to produce content ranging from complex white papers to simple product descriptions. Many of our content customers use this service to create a steady stream of posts for their corporate blog. We first began offering custom content services in 2015 after our acquisition of Ebyline, a leading marketplace in the editorial content space, and continued to expand this offering with our acquisition of ZenContent in July 2016, a company that predominantly focused on e-commerce-related asset creation.

#### Our Platforms

The IZEA Exchange. The IZEA Exchange (“IZEAx”) is designed to provide a unified ecosystem that enables the creation and publication of multiple types of custom content through our creator's personal websites, blogs, and social media channels including Twitter, Facebook, and Instagram, among others. We extensively use this platform to manage influencer marketing campaigns on behalf of our marketers. This platform is also available directly to our marketers as a self-service tool and as a licensed white label product. IZEAx was engineered from the ground-up to replace all of our previous platforms with an integrated offering that is improved and more efficient. For influencer marketing campaigns, IZEAx provides integrated mechanisms for Federal Trade Commission (“FTC”) legal compliance. In particular, the integrated FTC compliance framework requires creators to provide disclosure to their followers with respect to the sponsored nature of the content and allows marketers to review the content for FTC compliance.



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Ebyline. In January 2015, we acquired Ebyline and its technology platform that was created to source and compensate creators specifically for the creation and delivery of professional editorial content. Ebyline was originally designed as a self-service content marketplace to replace editorial newsrooms located in the news agencies with a “virtual newsroom” of creators to produce their content needs and to handle their content workflow. After the acquisition, we began to utilize the creators in the Ebyline platform to produce professional custom content for brands, in addition to the self-service functionality used by newspapers. We are incorporating certain functions of this platform into IZEAx in order to have one consolidated platform in the future, at which time the Ebyline platform will be sunsetted. As such, we do not allocate any engineering resources to new feature development on the Ebyline platform. We plan to transition any remaining customers into our IZEAx platform in the future.

ZenContent. In July 2016, we acquired ZenContent including its custom content creation workflow technology and database of creators. ZenContent’s platform enables us to produce highly scalable, multi-part production of content for both e-commerce entities, as well as brand customers. The ZenContent platform allows us to parse work out to a wide array of qualified creators who together can develop custom content assets with unmatched quality, speed, and price. This platform is currently utilized by our campaign fulfillment team to service orders for custom content. We plan to integrate certain functions of the ZenContent platform into IZEAx in order to have one consolidated platform in the future.

TapInfluence. In July 2018, we acquired TapInfluence and its technology platform. TapInfluence markets and sells software-as-a-service "SaaS" software that is complementary with IZEA’s existing influencer marketing products and services. We intend to operate the TapInfluence platform for 12-18 months subsequent to the acquisition, during which time certain key features and technologies will be migrated to IZEAx. Enhanced influencer discovery and content workflow have been among the top software development priorities for the combined engineering team. Users of the TapInfluence platform will be migrated over time as certain new features are made available to end users.

IZEAx, Ebyline, ZenContent and TapInfluence were designed with the same purpose: to streamline transactions between our internal campaign fulfillment team, marketers and creators. We utilize these proprietary technologies to create efficiencies and economies of scale for all parties. Combined, these platforms provide marketers with access to a large network of creators along with complete workflow management, content control, payment processing and related performance tracking.

We believe that IZEAx should improve our ability to more efficiently match marketplace participants as the number of marketers and creators using the platform increases. To date, we have completed over 3.8 million influencer and content marketing transactions for customers ranging from small local businesses to Fortune 500 companies. We consider each individual piece of custom content, sponsored post or other update as an individual transaction so long as the creator of that content is being compensated for the transaction.

### Industry Background and Trends

When IZEA first launched PayPerPost in 2006, the concept of a brand paying bloggers to create sponsored content on their blogs was highly controversial among both marketers and content creators. The idea was introduced at a time when there were no ads on Facebook, YouTube or Twitter, and social media was largely void of corporate marketing messages. Over the past thirteen years, the landscape has dramatically changed. Today, strategic engagement in the social-sphere are the table stakes for modern brands - largely in part to changes in consumer behavior and the large-scale adoption of social media platforms. Similarly, those same companies are now producing custom marketing content for their social channels and embracing influencer marketing as a means to reach their customers.

While industry research indicates that brand spending on influencer and content marketing has grown dramatically in the last several years, the business processes and practices have not evolved in a meaningful way for the majority of buyers and sellers. The markets that we operate in are highly fragmented and are largely limited by the current inefficiencies inherent in our space. Most marketers have been forced to utilize a variety of execution partners and manual processes to navigate the complicated landscape, often resulting in low returns on their time investment or

worse-yet, questionable results. We believe this is largely due to marketers and creators lacking an efficient way to identify and engage each other in a marketplace of scale.

At the same time, influencers and content creators seeking to monetize their communities and work product are faced with significant challenges in making marketers aware of their services and in finding quality brands who are motivated to sponsor them. In addition, those creators with smaller followings simply lack the individual influence and audience needed to warrant the processing of a micro-transaction. In many cases, it costs a marketer more money to issue a traditional check to a small creator than the value of the sponsorship payment itself. Further complicating the sponsorship process for both parties are federal regulations around social media endorsements, tax reporting generally applicable to anyone receiving income for

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services, and the associated campaign tracking required to provide compliance. While many marketers would prefer to be “part of the conversation,” we believe the complexity and cost of individual sponsorship often deters them from doing so.

We believe that addressing the current challenges in efficiency and measurable success via technology represents a significant opportunity for us. IZEA ultimately solves these challenges with targeted, scalable marketplaces that aggregate content creators and marketers. In doing so, we offer an efficient, innovative way for creators and marketers of all sizes to find each other and form a compensated relationship.

### Our Business Model

Since our inception in 2006, we have worked diligently to establish and leverage key strengths in our business model, including:

**A culture of innovation and creativity.** We believe the only way to survive and thrive in our rapidly changing world is to change ahead of it. We are in a state of constant evolution and re-invention; this is “The IZEA Way.” We have created a culture committed to innovation and creativity that challenges convention, takes calculated risks, and breaks new ground. IZEA team members are protective and proud of our culture by applying its “humble, yet hungry” attitude to all facets of our business. Our people and their innovations ultimately provide us with what we see as our largest competitive advantage.

**First-mover advantage.** We believe that by pioneering the modern influencer marketing industry and investing heavily in innovation, acquisitions and marketing, we have been able to acquire a vast amount of industry knowledge, market insights and technology. The software foundation we have built over time is expansive with the amount of actionable data we have accumulated from our network of creators and the execution of customer programs. Those new to the space face a significant technology investment requirement and steep learning curve in order to compete in a complex and rapidly evolving industry.

**Best in class technology.** Based on our focused research and knowledge of our space, we believe that we have created the most comprehensive influencer marketing platform for enterprise users in IZEAx. While our industry is riddled with competitive claims and vaporware, we have developed a complete, enterprise-grade solution for those seeking to execute large scale influencer marketing campaigns from beginning to end.

**Experienced management team, board of directors, and strategic advisors.** Our management team includes not only a highly experienced team of entrepreneurs and executives from the digital media, technology and entertainment industries, but also outstanding board members who are experts in their respective fields. See Item 10 under Part III of this Annual Report for details.

### Our Growth Strategy

After nearly thirteen years of working in and developing the influencer and content marketing categories, we believe our business model is market-tested and our industry is established. Our development efforts have included assembling a diverse and experienced senior management team and engineering team, launching and optimizing our proprietary marketplaces, developing a cross-platform sales force and refining our message to the market. Key elements of our strategy to accelerate revenue growth and continue product development include:

**An integrated approach.** We believe IZEA is the only company that can currently provide both custom content creation and influencer marketing at scale. It is our opinion that this provides a significant advantage for us in the market and we have already seen strong sales response to proposals that include both content and influencer marketing. Moving forward we believe that this integrated approach will continue to play a significant role in IZEA’s global growth.

**Software + Marketplace.** In early 2018, we relaunched the sales efforts associated with licensing IZEAx to brand and agency customers. In mid-2018, we completed the acquisition of TapInfluence, our leading competitor in the influencer marketing software space. It is our intention to grow our existing Managed Service business while complimenting it with a strong emphasis on software licensing and associated marketplace fees moving forward. The sale of software provides us with a recurring revenue stream from license fees as well as marketplace spend fees from every transaction that is completed through our platform.

Strategic Acquisitions. The influencer and content marketing landscapes are highly-fragmented with hundreds of companies operating around the world. While it is very easy to start a company in the space in a traditional "agency model," it is very difficult to scale that model due the manual processes involved. It is also very expensive to develop and maintain proprietary technology to resell to other parties. We believe there is a meaningful opportunity to consolidate the top players in

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our space with a byproduct of eliminating duplicative spending, faster technological innovation, and improved market share under a unified brand. We intend to assertively explore strategic acquisitions in the United States and internationally that consolidate market share, expand our geographical footprint and further our position as a leading participant in both the influencer marketing and custom content businesses.

We regularly engage in negotiations with potential acquisition targets with proprietary technologies and steady customer bases. In January 2019, for example, we announced that we had entered into a preliminary, non-binding letter of intent for the proposed acquisition of FLUVIP Ventures, SL, a leading influencer marketing company in Latin America, to facilitate our due diligence efforts with respect to this company and expand our focus to Latin America. We are currently in the early stages of conducting this due diligence. As such, we have not formally established a final acquisition purchase price for the company or agreed upon other material terms and conditions, including but not limited to the structure of the transaction and management roles. Accordingly, based upon the limited information that FLUVIP has provided to date, we would not expect to consummate a transaction on the terms indicated in the preliminary letter of intent.

**Strategic partnerships.** We are working to improve functionality within IZEAx to create strategic partnerships and reseller agreements with companies that can provide additional growth in our base of creators and marketers. IZEAx is designed to be easily “white labeled,” allowing partners to operate their own “node” on the exchange. IZEAx is also designed to be licensed by partners that do not require a custom-branded solution, but instead seek an internal workflow tool to manage and service their content and marketing needs.

**Product development.** Since 2015, we have invested over \$17.7 million in engineering resources and product development, creating a meaningful competitive moat of features and functionality in our platform. We will continue to recruit additional engineering and product innovation team members to enhance IZEAx to develop new technology ideas within this platform that complement our mission as a company. In 2019, we intend to release version 3.0 of IZEAx, which will allow marketers to make offers that require a single creator to complete multiple tasks or deliverables. The new version will also allow users to source multiple creators to produce a combined deliverable for the end-marketer.

**Large network of users.** IZEA is a driving force in the broader “creator economy,” allowing everyone from college students and stay-at-home individuals to celebrities and accredited journalists the opportunity to monetize their content, creativity and influence through our platform. As of December 31, 2018, we had more than 813,000 user accounts in IZEAx. These accounts have connections to over 942,000 social media accounts with an approximate aggregate reach to 5.6 billion non-unique fans and followers of IZEAx creators. Our total number of user accounts may be higher than the number of our actual individual creators because some creators may have created multiple user accounts.

Creators are able to join our platforms for free, but they may also choose to pay to upgrade their accounts to enable additional services and benefits. These individuals are compensated by IZEA for producing content for our market clients or distributing such content on behalf of brands through their personal websites, blogs, and social media channels. We continually seek for ways to increase the ability for our creators to generate revenue. As such, we implement the ability for them to earn referral fees, for a period of time, based on revenue generated by other creators they refer into IZEAx.

By continually developing our creator network, we make our marketplace more attractive to our customers who seek a wide variety of creators to fulfill their content and advertising needs. As marketers utilize our marketplace to a greater extent, we expect to increase the monetization opportunities for creators, which should, in turn, attract even more creators and further enhance value for our marketers.

## Sales and Marketing

We primarily sell influencer marketing and custom content campaigns through our sales team and our platforms. We target regional, national and global brands and advertising agencies in the following ways:

**Client Development Team.** We have a client development team each of whom is assigned a geographic region or specific markets, primarily within the United States and Canada. The team members are responsible for identifying and managing sales opportunities to brands and agencies who are seeking to outsource some or all of the planning and production of their content and advertising needs.

**Partnership Team.** The partnership team initiates SaaS license opportunities with brands and agencies who seek to utilize additional functionality on our platforms on a self-service basis to facilitate custom content and influencer marketing campaigns.

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Industry Acumen. Our team possesses a strong marketing and advertising background. We focus our corporate marketing efforts on increasing brand awareness, communicating each of our platform advantages, generating qualified leads for our sales team and growing our creator network. Our corporate marketing plan is designed to continually elevate awareness of our brand and generate demand for social sponsorship. We rely on a number of channels in this area, including tradeshows, third-party social media platforms (e.g., Facebook and Twitter), IZEA-hosted community events, paid searches, content marketing, influencer marketing and our corporate websites.

## Customers and Revenue

We generate revenue from five primary sources: (1) revenue from our managed services when a marketer (typically a brand, agency or partner) pays us to provide custom content, influencer marketing, amplification or other consulting services (“Managed Services”); (2) revenue from fees charged to self-service customers on their marketplace spend within our IZEAx and TapInfluence platforms (“Marketplace Spend Fees”); (3) revenue from fees charged to access the IZEAx, Ebyline, and TapInfluence platforms (“License Fees”); (4) revenue from transactions generated by the self-service use of our Ebyline platform for professional custom content workflow (“Legacy Workflow Fees”); and (5) revenue derived from other fees such as inactivity fees, early cash-out fees, and plan fees charged to users of our platforms (“Other”).

As discussed in more detail within “Critical Accounting Policies and Use of Estimates” under Part II, Item 7 and in “Note 1. Company and Summary of Significant Accounting Policies,” under Part II, Item 8 of this Annual Report, revenue from Marketplace Spend Fees and Legacy Workflow Fees is reported on a net basis and revenue from all other sources, including Managed Services, License Fees and Other are reported on a gross basis. We further categorize these sources into two primary operating segments, Managed Services and SaaS Services, which includes revenue from Marketplace Spend Fees, License Fees and Legacy Workflow Fees.

We provide services to customers in multiple industry segments, including consumer products, retail/e-tail, lifestyle, technology, and travel. Our business serves advertising and public relations agencies, as well as brands and businesses directly. In many cases, influencer marketing dollars flow through the advertising or public relations agency, even when we have a direct relationship with the brand.

We generate the majority of our revenue from our Managed Services customers. Managed Services accounted for approximately 88% and 98% of our revenue during the twelve months ended December 31, 2018 and 2017, respectively. SaaS Services accounted for approximately 12% and 1% of our revenue during the twelve months ended December 31, 2018 and 2017, respectively. Other Revenue accounted for less than 1% and approximately 1% of our revenue during the twelve months ended December 31, 2018 and 2017, respectively.

Changes in how we control and manage our platforms, our contractual terms, our business practices, or other changes in accounting standards or interpretations, may change the reporting of our revenue. Effective January 1, 2018, we became subject to new guidelines for disclosing and accounting for our revenue from contracts with customers. See “Note 1. Summary of Significant Accounting Policies,” under Part II, Item 8 of this Annual Report for more information as it relates to our revenue recognition policies.

Our customers are predominantly located in the United States and Canada. We had no customer that accounted for more than 10% of our revenue during the twelve months ended December 31, 2018 or 2017. Revenue from our Canadian customers accounted for approximately \$2.0 million (10%) and \$2.0 million (8%) of our revenues during the twelve months ended December 31, 2018 and 2017, respectively.

## Technology

IZEAx spans multiple social networks and creator-owned blog websites. We aggregate creators in IZEAx, which allows us to create scale and targeting for marketers. We provide the ability to target our creators based on a variety of software rules and filters. We provide self-service platforms that service all business types and sizes. Unlike a traditional public relations model, marketers only pay for completed posts. We provide trackable results by automatically embedding tracking links and pixels, as well as support, for third-party tracking. We also provide dashboards for real-time reporting and immediate feedback.

#### Privacy and Security

We are committed to protecting the personal privacy of our marketers and creators. Any personal information that we collect is processed in accordance with our Privacy Policy, and we employ reasonable and appropriate administrative, physical, and technical safeguards to protect the personal information.



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### Product Development

Our product development team is responsible for platform and infrastructure development, application development, user interface and application design, enterprise connectivity, Internet applications and design, quality assurance, documentation and release management. One of our core strengths is our knowledge of and experience in launching and operating scalable content and influencer marketing marketplaces. Our product development expenses include salaries, bonuses, commissions, stock--based compensation, employee benefit costs, and miscellaneous departmental costs related to our development team along with hosting and software subscription costs. These costs were approximately \$2,991,000 and \$3,214,000, for the years ended December 31, 2018 and 2017, respectively and are included in general and administrative expense.

We launched IZEAx in March 2014 and unveiled our latest version 2.0 of the platform in February 2017. We continue to add new features and additional functionality to this platform each year. These new features will enable our platform to facilitate the contracting, workflow, and delivery of direct content as well as provide for invoicing, collaborating and direct payments for our SaaS customers. We incurred and capitalized software development costs of \$755,164 and \$174,379 in our balance sheet during the years ended December 31, 2018 and 2017, respectively. Our team believes that constant innovation is the only way to achieve long-term growth and our intention is to focus the majority of our engineering resources on the IZEAx platform for the foreseeable future. We intend to continue to invest in the creation of new technology additions that complement our core offerings.

### Competition

We face competition from multiple companies in the influencer and content marketing categories. Direct and indirect competitors in the influencer marketing space include Facebook, Twitter, YouTube, Linqia and Collective Bias. We also face competition in the content marketing space from companies such as Contently, NewsCred and Scripted. In addition, there are a number of traditional advertising agencies, public relations firms and niche consultancies that provide content development and conduct manual influencer outreach programs.

Competition could result in significant price competition, declining margins and reductions in advertising revenue. In addition, as we continue our efforts to expand the scope of our services with IZEAx, we may compete with a greater number of other companies across an increasing range of different services, including in vertical markets where competitors may have advantages in expertise, brand recognition and other areas. If existing or future competitors develop or offer products or services that provide significant performance, price, creative or other advantages over those offered by us, our business, prospects, results of operations and financial condition could be negatively affected.

We also compete with traditional advertising media such as direct mail, television, radio, cable and print for a share of marketers' total advertising budgets. Many current and potential competitors enjoy competitive advantages over us, such as longer operating histories, greater name recognition, larger customer bases, greater access to advertising space on high-traffic websites, and significantly greater financial, technical, sales and marketing resources.

### Proprietary Rights

Proprietary rights are important to our success and our competitive position. To evolve and secure our proprietary rights, we rely on intellectual property and trade secret laws, confidentiality procedures and contractual provisions.

As of December 31, 2018, we owned 35 domestic trademark registrations in the United States, 14 foreign registrations on the International Register, and had 3 total pending applications (1 in the United States and 2 foreign). During the twelve months ended December 31, 2018, we abandoned 5 U.S. applications and inactive trademarks. As of

December 31, 2018, we also owned approximately 362 domain names related to the various aspects of IZEA's products and services.

We actively protect our intellectual property rights but have encountered challenges following the U.S. Supreme Court decision in *Alice Corp. v. CLS Bank International*, 573 U.S. \_\_\_, 134 S. Ct. 2347 (2014) and *Intellectual Ventures I LLC vs. Symantec Corp.* (Fed. Cir. 2016), which changed the patent environment for software-based applications. As a result, given the difficulty in overcoming U.S. Patent and Trademark Office rejections of certain of our pending patent applications, management decided not to actively pursue, at this time, patent protection for our software-based applications. We met with similar resistance in seeking patent protection for our software-based applications internationally. However, we retain our pending foreign patent application in Brazil.

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We cannot provide any assurance that our proprietary rights with respect to our products or services will be viable or have value in the future since the validity, enforceability and type of protection of proprietary rights in Internet-related industries are uncertain and still evolving.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect proprietary rights to as great an extent as do the laws of the United States, and effective copyright, trademark, trade secret and patent protection may not be available in those jurisdictions. Our means of protecting our proprietary rights may not be adequate to protect us from the infringement or misappropriation of such rights by others.

Further, in recent