IZEA, Inc.
Form 10-Q
August 10, 2017
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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 June 30, 2017

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.: 001-37703

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

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

480 N. Orlando Avenue, Suite 200 Winter Park, FL	32789
(Address of principal executive offices)	(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 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 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, 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 o Accelerated filer o Smaller reporting company x

Non-accelerated filer o (Do not check if a smaller reporting company) Emerging growth company o

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 pursuant to Section 13(a) of the Exchange Act. o

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

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of August 2, 2017, there were 5,706,152 shares of our common stock outstanding.

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Quarterly Report on Form 10-Q for the period ended June 30, 2017

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS
IZEA, Inc.
Unaudited Consolidated Balance Sheets

	June 30, 2017	December 31, 2016
Assets		
Current:		
Cash and cash equivalents	$3,563,540	$5,949,004
Accounts receivable, net	4,124,332	3,745,695
Prepaid expenses	242,535	322,377
Other current assets	28,715	11,940
Total current assets	7,959,122	10,029,016
Property and equipment, net	359,485	460,650
Goodwill	3,604,720	3,604,720
Intangible assets, net	1,162,723	1,662,536
Software development costs, net	1,081,795	1,103,959
Security deposits	156,799	161,736
Total assets	$14,324,644	$17,022,617
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,474,962	$1,438,389
Accrued expenses	1,558,386	1,242,889
Unearned revenue	3,866,077	3,315,563
Current portion of deferred rent	38,704	34,290
Current portion of acquisition costs payable	266,173	1,252,885
Total current liabilities	7,204,302	7,284,016
Deferred rent, less current portion	40,307	62,547
Acquisition costs payable, less current portion	897,997	688,191
Warrant liability	—	—
Total liabilities	8,142,606	8,034,754
Commitments and Contingencies	—	—
Stockholders' equity:		
Preferred stock; $.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $.0001 par value; 200,000,000 shares authorized; 5,689,442 and 5,456,118, respectively, issued and outstanding	569	545
Additional paid-in capital	52,157,008	50,797,039
Accumulated deficit	(45,975,539)	(41,809,721)
Total stockholders' equity	6,182,038	8,987,863
Total liabilities and stockholders' equity	$14,324,644	$17,022,617

See accompanying notes to the unaudited consolidated financial statements.

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IZEA, Inc.
Unaudited Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$6,980,221	$6,913,689	$13,182,727	$12,379,639
Cost of sales	3,442,181	3,418,387	6,637,707	6,519,756
Gross profit	3,538,040	3,495,302	6,545,020	5,859,883
Operating expenses:				
General and administrative	2,524,630	2,524,746	5,334,154	5,104,747
Sales and marketing	2,426,363	2,612,714	5,324,718	4,972,377
Total operating expenses	4,950,993	5,137,460	10,658,872	10,077,124
Loss from operations	(1,412,953)	(1,642,158)	(4,113,852)	(4,217,241)
Other income (expense):				
Interest expense	(13,272)	(11,411)	(30,348)	(32,750)
Change in fair value of derivatives, net	(8,420)	26,421	(9,038)	29,273
Other income (expense), net	(11,953)	803	(12,580)	1,753
Total other income (expense), net	(33,645)	15,813	(51,966)	(1,724)
Net loss	$(1,446,598)	$(1,626,345)	$(4,165,818)	$(4,218,965)
Weighted average common shares outstanding – basic and diluted	5,676,629	5,350,128	5,637,636	5,320,962
Basic and diluted loss per common share	$(0.25)	$(0.30)	$(0.74)	$(0.79)

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, 2016	5,456,118	$ 545	$50,797,039	$(41,809,721)	$8,987,863
Stock issued for payment of acquisition liability	200,542	20	928,021	—	928,041
Stock purchase plan issuances	9,998	1	16,231	—	16,232
Stock issued for payment of services	22,784	3	92,497	—	92,500
Stock issuance costs	—	—	(3,626)	—	(3,626)
Stock-based compensation	—	—	326,846	—	326,846
Net loss	—	—	—	(4,165,818)	(4,165,818)
Balance, June 30, 2017	5,689,442	$ 569	$52,157,008	$(45,975,539)	$6,182,038

See accompanying notes to the unaudited consolidated financial statements.

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IZEA, Inc.
Unaudited Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(4,165,818)	$(4,218,965)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	113,429	125,232
Amortization of software development costs and other intangible assets	607,437	470,242
Gain on disposal of equipment	(3,687)	—
Provision for losses on accounts receivable	39,827	105,000
Stock-based compensation	326,846	405,326
Fair value of stock and warrants issued or to be issued for payment of services	83,462	72,470
Increase (decrease) in fair value of contingent acquisition costs payable	(56,000)	—
Gain on settlement of acquisition costs payable	(10,491)	—
Change in fair value of derivatives, net	9,038	(29,273)
Changes in operating assets and liabilities, net of effects of business acquired:		
Accounts receivable	(418,464)	(855,339)
Prepaid expenses and other current assets	63,067	(138,871)
Accounts payable	36,573	243,853
Accrued expenses	533,123	342,549
Unearned revenue	550,514	171,160
Deferred rent	(17,826)	(6,683)
Net cash used for operating activities	(2,308,970)	(3,313,299)
Cash flows from investing activities:		
Purchase of equipment	(8,577)	(100,060)
Increase in software development costs	(85,460)	(153,084)
Security deposits	4,937	(31,900)
Net cash used for investing activities	(89,100)	(285,044)
Cash flows from financing activities:		
Proceeds from stock purchase plan issuances	16,232	34,587
Stock issuance costs	(3,626)	(21,721)
Payments on capital lease obligations	—	(7,291)
Net cash from financing activities	12,606	5,575
Net decrease in cash and cash equivalents	(2,385,464)	(3,592,768)
Cash and cash equivalents, beginning of year	5,949,004	11,608,452
Cash and cash equivalents, end of period	$3,563,540	$8,015,684
Supplemental cash flow information:		
Cash paid during the period for interest	$—	$230
Non-cash financing and investing activities:		
Acquisition costs paid through issuance of common stock	$938,532	$848,832
Fair value of common stock issued for future services	$—	$82,867

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 June 30, 2017, the consolidated statements of operations for the three and six months ended June 30, 2017 and 2016, the consolidated statement of stockholders' equity for the six months ended June 30, 2017 and the consolidated statements of cash flows for the six months ended June 30, 2017 and 2016 are unaudited but include all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position at such dates and its results of operations and cash flows for the periods then ended in conformity with generally accepted accounting principles in the United States ("GAAP"). The consolidated balance sheet as of December 31, 2016 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 GAAP for complete financial statements. Operating results for the three and six months ended June 30, 2017 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, 2016 included in the Company's Annual Report on Form 10-K filed with the SEC on March 28, 2017.

Nature of Business

IZEA, Inc. (together with its wholly-owned subsidiaries, "we," "us," "our," "IZEA" or 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. In January 2015, IZEA purchased all of the outstanding shares of capital stock of Ebyline, Inc. (“Ebyline”) and in July 2016, IZEA purchased all the outstanding shares of capital stock of ZenContent, Inc. ("ZenContent"). Both of these entities now operate as wholly-owned subsidiaries under IZEA, Inc. On March 9, 2016, the Company formed IZEA Canada, Inc., a wholly-owned subsidiary, incorporated in Ontario, Canada to operate as a sales office for IZEA's Canadian customers and partners. The Company is headquartered near Orlando, Florida with additional offices in Illinois, California and Canada and a sales presence in New York, Michigan and Massachusetts.

The Company operates online marketplaces that facilitate transactions between marketers and influential content creators. These creators are compensated by IZEA for producing and distributing unique content such as long-form text, videos, photos, illustrations, and status updates on behalf of marketers through websites, blogs and social media channels. Marketers receive influential consumer content and engaging, shareable stories that drive awareness.

The Company's primary technology platform, the IZEA Exchange (“IZEAx”), enables transactions to be completed at scale through the management of custom content development, 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.

In addition to IZEAx, the Company operates the Ebyline technology platform it acquired in January 2015. The Ebyline platform is a self-service content marketplace which was originally designed to replace editorial newsrooms located within newspapers with a “virtual newsroom” to handle their content workflow.

Principles of Consolidation

The unaudited consolidated financial statements include the accounts of IZEA, Inc. and its wholly-owned subsidiaries, Ebyline after its acquisition on January 31, 2015, ZenContent, Inc. after its acquisition on July 31, 2016, and IZEA Canada, Inc. after its formation in March 2016. All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements were prepared using the acquisition method of accounting with IZEA considered the accounting acquirer of Ebyline and ZenContent. Under the acquisition method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values with any excess purchase price allocated to goodwill.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less from the date of purchase to be cash equivalents.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable are customer obligations due under normal trade terms. Uncollectability of accounts receivable is not significant since most customers are bound by contract and are required to fund the Company for all the costs of an “opportunity,” defined as an order created by a marketer for a creator to develop or share content on behalf of a marketer. If a portion of the account balance is deemed uncollectible, the Company will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. Management determines the collectability of accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. The Company had a reserve of $220,000 and $237,000 for doubtful accounts as of June 30, 2017 and December 31, 2016, respectively. 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 six months ended June 30, 2017 and 2016.

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. The Company had no customers which accounted for more than 10% of total accounts receivable at June 30, 2017 and December 31, 2016. The Company had no customers that accounted for more than 10% of its revenue during the three months ended June 30, 2017 and 2016. The Company had no customers that accounted for more than 10% of its revenue and one customer that accounted for 11% of its revenue during the six months ended June 30, 2017 and 2016, respectively.

Property and Equipment

Property and equipment are recorded at cost, or if acquired in a business combination, at the acquisition date fair value. 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 - 5 years
Office Equipment	3 - 10 years
Furniture and Fixtures	5 - 10 years

Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful lives of the improvements. Property and equipment under capital leases are depreciated over their estimated useful lives. Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for betterments and major improvements are capitalized and depreciated over the remaining useful lives of the assets. The carrying amounts of assets sold or retired and the related accumulated depreciation are eliminated in the year of disposal, with resulting gains or losses included in general and administrative expense. Depreciation expense on property and equipment recorded in general and administrative expense in the accompanying unaudited consolidated statements of operations was $54,541 and $64,637 for the three months ended June 30, 2017 and 2016, respectively. Depreciation expense on property and equipment recorded in general and administrative expense in the accompanying unaudited consolidated statements of operations was $113,429 and $125,232 for the six months ended June 30, 2017 and 2016, respectively. Property and equipment is recorded net of accumulated depreciation amounts of $721,377 and $616,056 as of June 30, 2017 and December 31, 2016, respectively.

Intangible Assets

The Company acquired the majority of its intangible assets through its acquisition of Ebyline on January 30, 2015 and its acquisition of ZenContent on July 31, 2016. The Company is amortizing the identifiable intangible assets over a period of 12 to 60 months. See Note 3 for further details.

Management reviews long-lived assets, including property and equipment, software development costs and other intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared with the asset's carrying amount to determine if there has been an impairment, which is calculated as the difference between the fair value of an asset and its carrying value. Estimates of future undiscounted cash flows are based on expected growth rates for the business, anticipated future economic conditions and estimates of residual values. Fair values take into consideration management estimates of risk-adjusted discount rates, which are believed to be consistent with assumptions that marketplace participants would use in their estimates of fair value. For the three and six months ended June 30, 2017 and 2016, there were no impairment charges associated with the Company's long-lived assets.

Software Development Costs

In accordance with Accounting Standards Codification ("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 or additional features. See Note 4 for further details.

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. The Company has goodwill in connection with its acquisition of Ebyline and ZenContent. Goodwill is not amortized, but instead it is tested for impairment at least annually. 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.

The Company performs its annual impairment tests of goodwill during the fourth quarter of each year, or more frequently, if certain indicators are present. Goodwill is required to be tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment level, which is referred to as a component. Management identifies its reporting units by assessing whether components (i) have discrete financial information available; (ii) engage in business activities; and (iii) whether a segment manager regularly reviews the component's operating results. Net assets and goodwill of acquired businesses are allocated to the reporting unit associated with the acquired business based on the anticipated organizational structure of the combined entities. If two or more components are deemed economically similar, those components are aggregated into one reporting unit when performing the annual goodwill impairment review. The Company has determined that prior to and after the acquisition of Ebyline and ZenContent, it had and continues to have one reporting unit.

Revenue Recognition

In January 2017, the Company revised the way it categorizes its revenue streams to more closely align the revenue based on margin profiles and how it currently analyzes the business. The revised categories are as follows: Managed Services, Content Workflow, and Service Fee Revenue. Managed Services is when a marketer, typically a brand, agency or partner, contracts IZEA to provide custom content, influencer marketing or amplification services. Content Workflow is derived from the self-service use of the Ebyline platform by news agencies to handle their content workflow from initial content request to payment of content received. Service Fee Revenue is generated when fees are charged to customers 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. The Company recognizes revenue at various times depending on the service that is being performed.

For Managed Services, the Company enters into an agreement to provide services that may require multiple deliverables in the form of (a) sponsored social items, such as blogs, tweets, photos or videos shared through social network offerings that provide awareness or advertising buzz regarding the marketer's brand; (b) content promotion, such as click-through advertisements appearing in websites and social media channels; and (c) original content items, such as a research or news article, informational material or videos that a publisher or other marketer can use. The Company may provide one type or a combination of all types of these deliverables including a management fee on a statement of work for a lump sum fee. These deliverables are to be provided over a stated period that may range from one day to one year. Each item is considered delivered once the custom content has been delivered to the customer or once the content is distributed live through a public or social network. Revenue is accounted for separately on each of the deliverables in the time frames set forth below. Payment terms are typically 30 days from the invoice date. If the Company is unable to provide a portion of the services, it may agree with the customer to provide a different type of service or to provide a credit for the value of those services, which may be applied to the existing order or used for

future services. The statement of work typically provides for a cancellation fee if the agreement is canceled by the customer prior to completion of services. The Company recognizes revenue on influencer marketing services after a marketer'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 from advertising campaigns managed by the Company are recognized ratably over the term of the campaign which may range from a few days to one year. Revenue on custom content provided to a marketer is recognized when the content is delivered to and accepted by the customer.

For Content Workflow services, the self-service marketer contracts the creators directly to provide custom content. The Ebyline platform controls the contracting, description of services, acceptance of and payment for the requested content. This service is used primarily by news agencies to control the outsourcing of their content needs. Revenue is recognized when the transaction is completed by the creator and accepted by the marketer.

Service Fee Revenue is recognized immediately when the service is performed or at the time an account becomes dormant or is cashed out. Service Fee Revenue for subscription or licensing fees is recognized straight-line over the term of service.

Marketers who use the Company to manage their social advertising campaigns or custom content requests may prepay for services or request credit terms. Payments received or billings in advance of completed 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 Staff Accounting Bulletin 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 marketer or customer is fixed (required to be paid at a set amount that is not subject to refund or adjustment) and determinable, and (iv) collectability is reasonably assured. The Company records revenue on the gross amount earned since it generally is the primary obligor in the arrangement, takes on credit risk, establishes the pricing and determines the service specifications.

Advertising Costs

Advertising costs are charged to expense as they are incurred, including payments to content creators to promote the Company. Advertising costs charged to operations for the three months ended June 30, 2017 and 2016 were approximately $87,000 and $106,000, respectively. Advertising costs charged to operations for the six months ended June 30, 2017 and 2016 were approximately $169,000 and $217,000, respectively. Advertising costs are included in sales and marketing expense in the accompanying unaudited 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 and 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 tax in four states which is included in general and administrative expenses in the consolidated 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 are 2013, 2014 and 2015.

Derivative Financial Instruments

Derivative financial instruments are defined as financial instruments or other contracts that contain a notional amount and one or more underlying factors (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 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 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. The Company has 5,502

warrant shares issued in its September 2012 public offering that 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 June 30, 2017 and December 31, 2016 was $0. During the three and six months ended June 30, 2016, the Company recorded a gain of $877 and $3,729, respectively, due to the change in the fair value of its warrant 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 its acquisition cost liability (see Note 2) and a warrant liability as of June 30, 2017. Significant unobservable inputs used in the fair value measurement of the warrants include the estimated term and risk-adjusted interest rates. In developing its credit risk assumption used in the fair value of warrants, the Company considered 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 2011 Equity Incentive Plan and 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 a straight-lined 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 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 six months ended June 30, 2017 and 2016:

2011 Equity Incentive Plans Assumptions	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Expected term	6 years	6 years	6 years	6 years
Weighted average volatility	43.71%	52.39%	43.78%	52.54%
Weighted average risk free interest rate	2.01%	1.42%	2.03%	1.52%
Expected dividends	—	—	—	—

Effective January 1, 2017, the Company considered its accounting for stock options pursuant to Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU is intended to reduce the cost and complexity of accounting for employee share-based payments primarily surrounding the accounting for income taxes upon vesting or exercise of share-based payments and accounting for forfeitures, as well as related financial statement classifications. Although the new standard provides for the use of no forfeiture estimate, the Company elected to continue the use of estimated forfeitures when accounting for stock-based compensation, because it has an established history of forfeitures for non-vested options. There was no effect on the Company's financial statements as a result of the adoption of this standard.

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 10.09% and 13.99% during the three months ended June 30, 2017 and 2016, respectively. Average expected forfeiture rates were 10.59% and 12.20% during the six months ended June 30, 2017 and 2016, respectively.

Non-Employee Stock-Based Payments

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 in the accompanying consolidated statements of operations. Stock-based payments 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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under 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 GAAP. The standard is effective for annual periods beginning after December 15, 2017, 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).

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in this ASU are intended to improve the understanding of the implementation guidance on principal versus agent considerations by amending certain existing illustrative examples and adding additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09 stated above.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing. ASU 2016-10 is intended to reduce the cost and complexity of applying the guidance in the FASB's new revenue standard on identifying performance obligations, and is also intended to improve the understanding of the licensing implementation guidance. The effective date for ASU 2016-10 is the same as for ASU 2014-09 stated above.

In May 2016, the FASB issued ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 is intended to improve the guidance on collectability, noncash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customer. The effective date for ASU 2016-10 is the same as for ASU 2014-09 stated above.

These new revenue recognition standards will be effective for the Company on January 1, 2018. The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company currently anticipates adopting the standard using the modified retrospective method. The Company is reviewing each of the five steps in the new revenue recognition model, which are as follows: 1) Identify the contract with the customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations; and 5) Recognize revenue when (or as) performance obligations are satisfied. However, the Company has not yet finalized its review and analysis to determine the impact that this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact that this ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The new standard addresses eight specific cash flow issues and provides guidance for classification. The new standard is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact that this ASU will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. To address concerns over the cost and complexity of the two-step goodwill impairment test, the new standard removes the requirement for the second step of the goodwill impairment test for certain entities. An entity may apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact that this ASU will have on its consolidated financial statements.

NOTE 2. BUSINESS ACQUISITIONS

EBYLINE, INC.

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 of $8,850,000. The Stock Purchase Agreement was made up of a combination of guaranteed payments and contingent performance payments to be paid if Ebyline met certain revenue targets in the three years following the closing. None of these targets were met in the first two years following the closing and it is not expected that they will be met in the third year. Therefore, the total consideration to be paid for the Ebyline acquisition is expected to be $3,327,064.

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Notes to the Unaudited Consolidated Financial Statements

Purchase Price and Acquisition Costs Payable

	Estimated Gross Purchase Consideration	Initial Present and Fair Value	Remaining Present and Fair Value	Remaining Present and Fair Value
	1/30/2015	1/30/2015	12/31/2016	6/30/2017
Cash paid at closing (a)	$ 1,200,000	$1,200,000	$ —	$ —
Guaranteed purchase price (a)	2,127,064	1,982,639	934,728	—
Contingent performance payments (b)	2,210,000	1,834,300	—	—
Acquisition costs payable by Ebyline shareholders (c)	—	—	—	—
Total estimated consideration	$ 5,537,064	$5,016,939	$ 934,728	$ —
Current portion of acquisition costs payable			$ 934,728	$ —
Long term portion of acquisition costs payable			—	—
Total acquisition costs payable			$ 934,728	$ —

(a) The Ebyline Stock Purchase Agreement required a $1,200,000 cash payment at closing, a $250,000 stock payment on July 30, 2015 and 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 additional amount owed became $1,877,064 payable in two equal installments of $938,532 on January 30, 2016 and January 30, 2017. This guaranteed purchase price consideration was discounted to present value using the Company's borrowing rate of prime plus 2%. Interest expense imputed on the acquisition costs payable in the accompanying consolidated statements of operations was $0 and $11,412 for the three months ended June 30, 2017 and 2016, respectively. Interest expense imputed on the acquisition costs payable in the accompanying consolidated statements of operations was $3,804 and $26,725 for the six months ended June 30, 2017 and 2016, respectively. Per the Ebyline Stock Purchase Agreement, the Company issued 31,821 shares of its common stock to satisfy the $250,000 guaranteed purchase price payment obligation on July 30, 2015. On January 29, 2016, the Company issued 114,398 shares of its common stock to satisfy the $848,832 annual guaranteed payment of $938,532 less $89,700 in closing related expenses (see item (c) below). On January 30, 2017, the Company issued 200,542 shares of common stock to satisfy the final annual guaranteed payment of $938,532. The Company recorded a $10,491 gain on the settlement of the acquisition costs payable in the accompanying consolidated statements of operations as a result of the difference between the market price of the stock on the settlement date and the 30-day average price of the stock required by the Ebyline Stock Purchase Agreement.

(b) Total contingent performance payments up to $5,500,000 are to be paid 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. The initial fair value of the $5,500,000 of contingent performance payments was calculated using a Monte-Carlo simulation to simulate revenue over three years. Since the contingent consideration has an option like structure, a risk-neutral framework was 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 an initial 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. Based on actual results for and projections for Content Revenue for 2015-2017, the Content Revenue for every year is expected to be below 90% of the required Content Revenues targets. Therefore, the Company reduced the fair value of contingent performance payments to zero by the end of 2015, as no further payments are expected to be owed.

(c) According to the Ebyline Stock Purchase Agreement, $89,700 in closing related expenses paid by Ebyline during the acquisition process were payable by the selling shareholders. These costs were deducted from the guaranteed payment on January 30, 2016.

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ZENCONTENT, INC.
On July 31, 2016, the Company purchased all of the outstanding shares of capital stock of ZenContent pursuant to the terms of a Stock Purchase Agreement, by and among IZEA, ZenContent and the stockholders of ZenContent for a maximum purchase price to be paid over the next three years of $4,500,000.

Purchase Price and Acquisition Costs Payable

	Estimated Gross Purchase Consideration	Initial Present and Fair Value	Remaining Present and Fair Value	Remaining Present and Fair Value
	7/31/2016	7/31/2016	12/31/2016	6/30/2017
Cash paid at closing (a)	$ 400,000	$400,000	$—	$—
Stock paid at closing (a)	600,000	600,000	—	—
Guaranteed purchase price (b)	933,565	566,547	682,348	821,309
Contingent performance payments (c)	2,500,000	230,000	324,000	342,861
Total estimated consideration	$ 4,433,565	$1,796,547	$1,006,348	$1,164,170
Current portion of acquisition costs payable			$318,157	$266,173
Long-term portion of acquisition costs payable			688,191	897,997
Total acquisition costs payable			$1,006,348	$1,164,170

(a) The aggregate consideration paid at closing for the acquisition of ZenContent consisted of a cash payment of $400,000 and the issuance of 86,207 shares of IZEA common stock valued at $600,000.

(b) Aggregate future consideration consists of (i) three equal annual installment payments totaling $1,000,000, commencing 12 months following the closing, less a reduction of $66,435 due to a customary closing date working capital adjustment ("guaranteed purchase price"), and (ii) contingent performance payments of up to an aggregate of $2,500,000 over the three 12-month periods following the closing. These payments are also subject to downward adjustment of up to 30% if Brianna DeMike, ZenContent’s co-founder, is terminated by IZEA for cause or she terminates her employment without good reason. As a result, the Company initially reduced its acquisition cost liability by $300,000 to be accrued as compensation expense over the three-year term rather than allocated to the purchase price in accordance with ASC 805-10-55-25. Compensation expense added to the guaranteed acquisition costs payable and recorded as general and administrative expense in the Company's consolidated statement of operations was $61,459 and $122,917 for the three and six months ended June 30, 2017, respectively. The initial guaranteed purchase price consideration was discounted to present value using the Company's borrowing rate of prime plus 2% (5.5%). Interest expense imputed on the guaranteed acquisition costs payable in the accompanying consolidated statement of operations was $8,022 and $16,044 for the three and six months ended June 30, 2017.

(c) The contingent performance payments are subject to ZenContent achieving certain minimum revenue thresholds over 36 months. ZenContent is required to meet minimum revenues of $2.5 million, $3.5 million and $4.5 million in the first, second and third, respective 12-month periods following the closing in order to receive any portion of the contingent performance payments. Of these payments, 33% of each such annual installment or contingent performance payment will be in the form of cash and the remainder of such payment will be in the form of either cash or additional shares of IZEA common stock at then average stock prices (determined at IZEA’s option). Additionally, these payments are also subject to downward adjustment of up to 30% if Brianna DeMike is terminated by IZEA for cause or she terminates her employment without good reason. We initially determined the

fair value of the $2,500,000 contingent payments to be $230,000. The fair value of the contingent performance payments is required to be revalued each quarter and is calculated using a Monte-Carlo simulation to simulate revenue over the future periods. 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 17%) 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, payout was calculated for each year and present valued to incorporate the credit risk associated with these payments. The Company's fair value conclusion was based on the average payment from 250,000 simulation trials. The volatility used for the simulation was 45%.

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The interest rate used for the simulation was the Company's current borrowing rate of prime plus 2% (6.25%). The Company revalued its estimate of the contingent performance payment as of June 30, 2017 based on actual results and projections and the rates noted above and determined that current fair value of the contingent performance payments was $342,861 compared to $324,000 as of December 31, 2016. The change in the estimated fair value of contingent performance payable resulted in a $18,861 increase to general and administrative expense in the Company's consolidated statement of operations during the six months ended June 30, 2017. Of this amount, $74,861 was allocated to compensation expense and a gain of $56,000 was allocated as a change in the fair value of the contingent performance payments. The change the estimated fair value of contingent performance payable resulted in a $23,473 decrease to general and administrative expense in the Company's consolidated statement of operations during the three months ended June 30, 2017. Of this amount, a gain of $6,473 was allocated as a decrease in compensation expense and a gain of $17,000 was allocated as a change in the fair value of the contingent performance payments.

Purchase Price Allocation
The consolidated financial statements reflect the allocation of the purchase price to the underlying ZenContent tangible and intangible assets acquired and liabilities assumed based on their respective fair market values with any excess purchase price allocated to goodwill.

The allocation of the purchase price as of July 31, 2016 is summarized as follows:

	Final Purchase Price Allocation
Current assets	$415,798
Property and equipment	4,551
Identifiable intangible assets	722,000
Goodwill	1,136,431
Current liabilities	(482,233)
Total estimated consideration	$1,796,547

The ZenContent operations are included in the consolidated financial statements beginning on the date of acquisition of July 31, 2016. The ZenContent operations contributed revenue of $1,090,254 and gross profit of $672,599 in the consolidated statement of operations for the three months ended June 30, 2017. The ZenContent operations contributed revenue of $1,737,820 and gross profit of $1,089,390 in the consolidated statement of operations for the six months ended June 30, 2017. There are $11,297 acquisition-related costs which are included in general and administrative expense on the Company's consolidated statement of operations for the three and six months ended June 30, 2016.

NOTE 3. INTANGIBLE ASSETS

The identifiable intangible assets consists of the following assets:

		Accumulated Amortization		
	Balance	June 30, 2017	December 31, 2016	Useful Life (in years)
Content provider networks	$160,000	$89,583	$ 57,083	1
Trade names	52,000	51,000	45,000	1
Developed technology	530,000	187,167	134,167	3

Self-service content customers	210,000	169,166	134,167	5
Managed content customers	2,140,000	1,548,889	1,192,222	3
Domains	166,469	49,941	33,294	5
Total identifiable intangible assets	$3,258,469	$2,095,746	$ 1,595,933	

Total identifiable intangible assets from the Ebyline and ZenContent purchase price allocation and other acquired assets net of accumulated amortization thereon consists of the following:

	June 30, 2017	December 31, 2016
Ebyline Intangible Assets	$2,370,000	$2,370,000
ZenContent Intangible Assets	722,000	722,000
Domains	166,469	166,469
Total Intangible Assets	3,258,469	3,258,469
Accumulated amortization	(2,095,746)	(1,595,933)
Intangible Assets, net	$1,162,723	$1,662,536

The Company is amortizing the identifiable intangible assets over a weighted average period of three years. Amortization expense recorded in general and administrative expense in the accompanying consolidated statements of operations was $249,907 and $189,991 for the three months ended June 30, 2017 and 2016, respectively. Amortization expense recorded in general and administrative expense in the accompanying consolidated statements of operations was $499,813 and $385,814 for the six months ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, future estimated amortization expense related to identifiable intangible assets over the next five years is set forth in the following schedule:

Year ending December 31:	Amortization Expense
2017 (six months remaining)	$494,815
2018	349,432
2019	207,349
2020	84,293
2021	26,834
Total	$1,162,723

NOTE 4. SOFTWARE DEVELOPMENT COSTS

Software development costs consists of the following:

	June 30, 2017	December 31, 2016
Software development costs	$1,578,125	$1,492,665
Less accumulated depreciation and amortization	(496,330)	(388,706)
Software development costs, net	$1,081,795	$1,103,959

The Company determined that on April 15, 2013, its project to create IZEAx became technologically feasible and the development phase began. Throughout 2013 and the first quarter of 2014, the Company developed its new web-based advertising exchange platform, IZEAx. On March 17, 2014, the Company launched a public beta of IZEA.com powered by IZEAx. This platform is being utilized both internally and externally to facilitate native advertising campaigns on a greater scale. The Company continues to add new features and additional functionality to this platform each year. These new features will enable IZEAx to facilitate the contracting, workflow, and delivery of direct content as well as provide for invoicing, collaborating, and direct payments for the Company's software as a service ("SaaS") customers. In accordance with ASC 350-40, Internal Use Software and ASC 985-730, Computer Software Research and Development, research phase costs should be expensed as incurred and development phase costs including direct materials and services, payroll and benefits and interest costs may be capitalized. As a result, the Company has capitalized $1,578,125 in direct materials, consulting, payroll and benefit costs to software development costs in the consolidated balance sheet as of June 30, 2017. The Company estimated the useful life of its developed

software to be 5 years, consistent with the amount of time its legacy platforms were in-service.

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Amortization expense on software development costs recorded in general and administrative expense in the accompanying consolidated statements of operations was $53,812 and $44,549 for the three months ended June 30, 2017 and 2016, respectively.
Amortization expense on software development costs recorded in general and administrative expense in the accompanying consolidated statements of operations was $107,624 and $84,428 for the six months ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, future estimated amortization expense related to software development costs over the next five years is set forth in the following schedule:

Year ending December 31:	Software Amortization Expense
2017 (six months remaining)	$ 149,448
2018	315,625
2019	230,293
2020	193,443
2021	134,432
2022	58,554
	$ 1,081,795

NOTE 5. COMMITMENTS & CONTINGENCIES

Credit Agreement
The Company has a secured credit facility agreement with Western Alliance Bank, the parent company of Bridge Bank, N.A. of San Jose, California, which it obtained on March 1, 2013 and expanded 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%. As of June 30, 2017 and December 31, 2016, the Company had no advances outstanding under this agreement. As of June 30, 2017, the Company had a net accounts receivable balance of $4,124,332. Assuming that all of the Company's accounts receivable balance was eligible for funding, it had available credit of $3,299,466 under the agreement as of June 30, 2017.

The annual fees are capitalized in the Company's consolidated balance sheet within other current assets and are amortized to interest expense over one year. The Company amortized $5,250 and $0 of the annual costs through interest expense during the three months ended June 30, 2017 and 2016, respectively. The Company amortized $10,500 and $5,796 of the annual costs through interest expense during the six months ended June 30, 2017 and 2016, respectively. The remaining value of the capitalized loan costs related to the Bridge Bank Credit Agreement as of June 30, 2017 is $17,500. This amount will be amortized to interest expense in the next ten months.

Litigation
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. 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.

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.
Reverse Stock Split
On January 6, 2016, the Company filed a Certificate of Amendment with the Secretary of State of Nevada to effect a reverse stock split of the issued and outstanding shares of its common stock at a ratio of one share for every 20 shares outstanding prior to the effective date of the reverse stock split. All current and historical information contained herein related to the share and per share

information for the Company's common stock or stock equivalents reflects the 1-for-20 reverse stock split of the Company's outstanding shares of common stock that became market effective on January 11, 2016. There was no change in the number of the Company's authorized shares of common stock.

Nasdaq Uplisting
On January 26, 2016, the Company's shares of common stock commenced trading on the Nasdaq Capital Market under the symbol IZEA. Prior thereto, the Company's common stock was quoted on the OTCQB marketplace under the same symbol.

Stock Issued for Purchases
As further discussed in Note 2, the Company issued 31,821 shares of its common stock to satisfy the $250,000 guaranteed purchase price payment obligation on July 30, 2015 per the Ebyline Stock Purchase Agreement. On January 29, 2016, the Company issued 114,398 shares of its common stock to satisfy the $848,832 annual guaranteed payment of $938,532 less $89,700 in closing related expenses owed as part of the Ebyline Stock Purchase Agreement and on January 30, 2017, the Company issued 200,542 shares of common stock to satisfy the final annual guaranteed payment of $938,532.

Stock Issued for Services
The Company issued its five independent directors a total of 15,765 shares of restricted common stock initially valued at $62,500 for their service as directors of the Company during the six months ended June 30, 2017. The stock vested monthly from January through June 2017. On February 12, 2017, the Company issued 7,109 shares valued at $30,000 as compensation for services a contractor provided.

The following table contains summarized information about nonvested restricted stock outstanding during the six months ended June 30, 2017:

Restricted Stock	Common Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Years to Vest
Nonvested at December 31, 2016	—	$	—
Granted	22,784	4.06	
Vested	(22,784)	3.66	
Forfeited	—	—	
Nonvested at June 30, 2017	—	$	—

Total expense recognized for stock-based payments for services during the three months ended June 30, 2017 and 2016 was $22,830 and $41,220, respectively. Total expense recognized for stock-based payments for services during the six months ended June 30, 2017 and 2016 was $83,462 and $72,470, respectively. The fair value of the services is based on the value of the Company's common stock over the term of service. The Company recognized a loss of $8,420 and $9,038 as a change in the fair value of derivatives during the three and six months ended June 30, 2017, based on the change between the Company's stock price upon issuance and the Company's stock price upon the date of vesting. There is no remaining future compensation related to nonvested restricted awards as of June 30, 2017.

Stock Options
In May 2011, the Board of Directors adopted the 2011 Equity Incentive Plan of IZEA, Inc. (the “May 2011 Plan”). At the Company's 2017 Annual Meeting of Stockholders held on June 21, 2017, the stockholders approved the amendment and restatement of the May 2011 Plan which increased the number of shares of common stock available for issuance under the May 2011 Plan by 500,000 shares. The amended May 2011 Plan allows the Company to grant

options to purchase up to 1,500,000 shares as an incentive for its employees and consultants. As of June 30, 2017, the Company had 493,852 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 4,375 shares of common stock for issuance under the August 2011 Plan. As of June 30, 2017, the Company had 625 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 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 purchase price is set at the fair market value of the Company’s common stock on the grant date, the term is set at ten years and the options typically vest on a straight-line basis 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 Company issues new shares to the optionee for any stock awards or options exercised pursuant to its 2011 Equity Incentive Plans.

A summary of option activity under the 2011 Equity Incentive Plans for the year ended December 31, 2016 and the six months ended June 30, 2017, is presented below:

Options Outstanding	Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Outstanding at December 31, 2015	830,599	$ 8.65	6.5
Granted	179,998	6.16	
Exercised	—	—	
Forfeited	(50,733)	10.15	
Outstanding at December 31, 2016	959,864	$ 8.11	6.4
Granted	55,003	3.64	
Exercised	—	—	
Forfeited	(37,074)	50.15	
Outstanding at June 30, 2017	977,793	$ 6.26	6.2
Exercisable at June 30, 2017	635,371	$ 6.24	5.3

During the three and six months ended June 30, 2017 and 2016, no options were exercised. The fair value of the Company's common stock on June 30, 2017 was $1.91 per share. The intrinsic value on outstanding options as of June 30, 2017 was $0. The intrinsic value on exercisable options as of June 30, 2017 was $0.

A summary of the nonvested stock option activity under the 2011 Equity Incentive Plans for the year ended December 31, 2016 and the six months ended June 30, 2017, is presented below:

Nonvested Options	Common Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Years to Vest
Nonvested at December 31, 2015	461,926	$ 3.84	2.8
Granted	179,998	2.88	
Vested	(187,181)	4.00	
Forfeited	(40,437)	3.76	
Nonvested at December 31, 2016	414,306	$ 3.60	2.6
Granted	55,003	1.60	
Vested	(109,024)	3.60	
Forfeited	(17,863)	3.12	
Nonvested at June 30, 2017	342,422	$ 3.04	2.5

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 option awards outstanding during the six months ended June 30, 2017 and 2016 was $326,846 and $405,326, respectively. Stock-based compensation expense was recorded as $30,494 to sales and marketing and $296,352 to general and administrative expense in the Company's consolidated statement of operations during the six months ended June 30, 2017. Stock-based compensation expense was recorded as $44,515 to sales and marketing and $360,811 to general and administrative expense in the Company's consolidated statement of operations

during the three and six months ended June 30, 2016. Future compensation related to nonvested awards expected to vest of $859,382 is estimated to be recognized over the weighted-average vesting period of approximately two years, six months.

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 75,000 shares of the Company's common stock for issuance thereunder. Any employee regularly employed by the 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 elects to participate may purchase up to 10% of their annual compensation in common stock not to exceed $21,250 annually or 1,000 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. Employees paid $16,232 to purchase 9,998 shares of common stock during the six months ended June 30, 2017. Employees paid $34,587 to purchase 5,340 shares of common stock during the six months ended June 30, 2016. As of June 30, 2017, the Company had 39,764 remaining shares of common stock available for future grants under the ESPP.

NOTE 7. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share is computed by dividing the net income or loss by the basic 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 total of the basic 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		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net loss	$(1,446,598)	$(1,626,345)	$(4,165,818)	$(4,218,965)
Weighted average shares outstanding - basic and diluted	5,676,629	5,350,128	5,637,636	5,320,962
Basic and diluted loss per common share	$(0.25)	$(0.30)	$(0.74)	$(0.79)

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Stock options	981,596	876,285	972,780	859,040
Warrants	533,959	557,849	545,625	546,251
Restricted stock units	—	—	—	—
Total excluded shares	1,515,555	1,434,134	1,518,405	1,405,291

NOTE 8. SUBSEQUENT EVENTS

No material events have occurred after June 30, 2017 that require recognition or disclosure in the financial statements.

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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," "would," "could," "should," "should," "expects," "anticipates," "estimates," "believes," "in or comparable terminology are forward-looking statements. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and our actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, our ability to raise additional funding, customer cancellations, 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 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 other risks described herein and in our other filings with the SEC.

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 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 was founded in February 2006 under the name PayPerPost, Inc. and became a public company incorporated in the state of Nevada in May 2011. In January 2015, we purchased all of the outstanding shares of capital stock of Ebyline, Inc. and in July 2016, we purchased all the outstanding shares of capital stock of ZenContent, Inc. These entities, which aid in our management and production of custom branded content, now operate as wholly-owned subsidiaries under IZEA, Inc. On March 9, 2016, we formed IZEA Canada, Inc., a wholly-owned subsidiary of IZEA, Inc. incorporated in Ontario, Canada to operate as a sales and support office for our Canadian customers and partners.

Company Overview

IZEA creates and operates online marketplaces that connect marketers with influential content creators. Our technology brings the marketers and creators together, enabling their transactions to be completed at scale through the management of content workflow, creator search and targeting, bidding, analytics and payment processing.

We help power the creator economy, allowing everyone from college students and stay at home moms to celebrities and accredited journalists the opportunity to monetize their content, creativity and influence. These creators are compensated by IZEA for producing unique content such as long-form text, videos, photos, illustrations, and status

updates. In addition to creating content for marketers, our creators are also compensated for distribution of that content through their personal blogs and social channels such as Twitter, Facebook and YouTube.

Marketers, including brands, agencies, and partners, engage us to gain access to our industry expertise, technology, analytics, and network of creators. These companies are our primary customers where we generate the majority of our revenue. They use our services for two primary purposes: the engagement of creators for influencer marketing campaigns (also known as “influencer marketing” or "sponsored social"), or the engagement of creators to create stand-alone custom content for the marketer's own use, as well as third party content marketing and native advertising efforts (“custom content”). Marketers receive influential consumer content and engaging, shareable stories that drive awareness.

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Our primary technology platform, the IZEA Exchange ("IZEAx"), enables transactions to be completed at scale through the management of custom content development, 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 to be provided and further distributed through a wide variety of social channels including blogs, Twitter, Facebook, Instagram and Tumblr, among others.

In addition to IZEAx, we operate the Ebyline technology platform we acquired in January 2015. The Ebyline platform is a self-service content marketplace which was originally designed to replace editorial newsrooms located within newspapers with a "virtual newsroom" to handle their content workflow.

Results of Operations for the Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

Revenues

Historically, we broke out our revenue into categories labeled Sponsored Revenue, Content Revenue and Service Fees. In January 2017, we revised the way we categorize our revenue streams to more closely align the revenue based on margin profiles and how we currently analyze our business. For the revised chart classification by quarterly historical periods in 2015 and 2016, see our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and the information set forth under Management's Discussion and Analysis entitled "Results of Operations for the Three Months Ended March 31, 2017 Compared to the Three Months Ended March 31, 2016." Our prior period revenue and cost categories included herein have been reclassified to conform to the current period presentation.

We derive revenue from three sources: revenue from our managed services when a marketer, typically a brand, agency or partner, pays us to provide custom content, influencer marketing or amplification services ("Managed Services"), revenue from the self service use of our Ebyline platform by news agencies to handle their content workflow from initial content request to payment of content received ("Content Workflow"), and revenue derived from various service and license fees charged to users of our platforms ("Service Fee Revenue").

The following table illustrates our approximate revenue, cost of sales and gross profit by revenue stream for the three months ended June 30, 2017 and 2016:

	Three Months Ended					
	June 30, 2017		June 30, 2016		$ Change	% Change
Revenue & % of Total						
Managed Services	$5,593,000	80 %	$5,225,000	76 %	$368,000	7.0 %
Content Workflow	1,362,000	20 %	1,595,000	23 %	(233,000)	(14.6)%
Service Fees & Other Revenue	26,000	— %	94,000	1 %	(68,000)	(72.3)%
Total Revenue	$6,981,000	100%	$6,914,000	100%	$67,000	1.0 %
Cost of Sales & % of Total						
Managed Services COS	$2,175,000	63 %	$1,939,000	57 %	$236,000	12.2 %
Content Workflow COS	1,268,000	37 %	1,480,000	43 %	(212,000)	(14.3)%
Service Fees & Other COS	—	— %	—	— %	—	100.0 %
Total Cost of Sales	$3,443,000	100%	$3,419,000	100%	$24,000	0.7 %
Gross Profit & Profit %						
Managed Services	$3,418,000	61 %	$3,286,000	63 %	$132,000	4.0 %

Content Workflow	94,000	7	%	115,000	7	%	(21,000	)(18.3	)%
Service Fees & Other Revenue	26,000	100	%	94,000	100	%	(68,000	)(72.3	)%
Total Gross Profit	$3,538,000	51	%	$3,495,000	51	%	$43,000	1.2	%

Revenues for the three months ended June 30, 2017 increased by $66,532, or 1.0%, compared to the same period in 2016. Managed Services increased primarily due to concentrated sales efforts toward larger IZEA managed campaigns that have components of both custom content and influencer marketing resulting in higher revenue per salesperson, and repeat business from existing customers. Content Workflow generated from newspaper and traditional publishers through the Ebyline

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platform on a self-service basis declined compared to the same period in 2016 due to the ongoing consolidation and cutbacks in the newspaper industry. Although revenue from Content Workflow decreased by $233,000, or (15%), in the three months ended June 30, 2017, our gross margin only declined by $21,000, because the margins are fixed with these customers at only 7% to 9%. We expect to see continued declines in Content Workflow revenue up to 35% compared to prior year levels due to the overall decline in this industry. Service Fee Revenue decreased in the three months ended June 30, 2017 due to lower licensing fees generated from partners using our platforms.

Our net bookings of $6.6 million for the three months ended June 30, 2017 were 3% lower than the net bookings of $6.8 million for the three months ended June 30, 2016, due to a 2017 reduction on a 2016 booking by one customer of $1 million after they underwent budget cuts on previously committed funds. Net bookings is a measure of sales orders received minus any cancellations or changes in a given period. Management uses net bookings as a leading indicator of future revenue recognition as revenue is typically recognized within 90-120 days of booking, though larger contracts may be recognized over twelve months from the original booking date. Net bookings can be affected by, among other things, cancellations or changes to orders that occur in future periods. Reductions in net bookings or changes in the expected timing of delivery for services due to delays and customer preferences or other considerations may result in fluctuations in expected future revenue.

Cost of Sales and Gross Profit

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

Cost of sales for the three months ended June 30, 2017 increased by $23,794, or 1%, compared to the same period in 2016. Cost of sales increased proportionally with the increase in our sales.

Gross profit for the three months ended June 30, 2017 increased by $42,738, or 1%, compared to the same period in 2016. Our gross profit percentage was nearly the same in the three months ended June 30, 2017 compared to the same period in 2016. We are now consistently selling all of our managed custom content services at similar margins to our historical Managed Sponsored Revenue margins. Content Workflow gross margin was consistent at 7% for the three months ended June 30, 2017 and 2016.

The total gross profit increase was primarily attributable to the increase in revenue and contribution margin from our higher margin, Managed Services offset by reduced revenue from our lower margin, Content Workflow. Managed Services contributed approximately 97% to the gross profit during the three months ended June 30, 2017 compared to 94% during the three months ended June 30, 2016. The mix of sales between our higher margin, Managed Services and lower margin, Content Workflow has a significant effect on our overall gross profit percentage.

The following table sets forth a summary of our statements of operations and the change between the periods:

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	(Unaudited) Three Months Ended			
	June 30, 2017	June 30, 2016	$ Change	% Change
Revenue	$6,980,221	$6,913,689	$66,532	1.0 %
Cost of sales	3,442,181	3,418,387	23,794	0.7 %
Gross profit	3,538,040	3,495,302	42,738	1.2 %
Operating expenses:				
General and administrative	2,524,630	2,524,746	(116)	— %
Sales and marketing	2,426,363	2,612,714	(186,351)	(7.1)%
Total operating expenses	4,950,993	5,137,460	(186,467)	(3.6)%
Loss from operations	(1,412,953)	(1,642,158)	229,205	14.0 %
Other income (expense):				
Interest expense	(13,272)	(11,411)	(1,861)	16.3 %
Loss on exchange of warrants	—	—	—	100.0 %
Change in fair value of derivatives, net	(8,420)	26,421	(34,841)	(131.9)%
Other income (expense), net	(11,953)	803	(12,756)	(1,588.5)%
Total other income (expense), net	(33,645)	15,813	(49,458)	312.8 %
Net loss	$(1,446,598)	$(1,626,345)	$179,747	11.1 %

Operating Expenses

Operating expenses consist of general and administrative expenses and sales and marketing expenses. Total operating expenses for the three months ended June 30, 2017 decreased by $186,467, or (4)%, compared to the same period in 2016. The decrease was primarily attributable to decreases in our sales and marketing expenses.

General and administrative expenses consist primarily of administrative and engineering personnel costs, general operating costs, public company costs, including non-cash stock compensation, acquisition costs, facilities costs, insurance, depreciation, professional fees, and investor relations costs. General and administrative expense for the three months ended June 30, 2017 decreased by $116 compared to the same period in 2016. Although we saw a $34,000 increase in personnel costs and increase in the variable costs related to personnel such as software and subscription costs, communication, travel and supply costs due to a 9% increase in the average number of our administrative and engineering personnel from the prior year period, this was offset by a decrease in our stock option expense by approximately $25,000 due to completed vesting on prior option issuances and less option expense on newer option issuances to general and administrative personnel. The increase in general and administrative expenses was further offset by a $59,000 decrease in contractor and professional fees during the three months ended June 30, 2017. Our depreciation and amortization expense increased by $59,000 as a result of additional amortization on the increase in our intangible assets from software costs and the intangibles acquired in the ZenContent acquisition discussed below.

On July 31, 2016, we purchased all of the outstanding shares of capital stock of ZenContent, Inc. for aggregate consideration up to $4,500,000, consisting of guaranteed payments of $2,000,000 and contingent performance payments up to $2,500,000 based on ZenContent meeting certain revenue targets for each of the three years ending July 31, 2017, 2018 and 2019. These payments are also subject to downward adjustment of up to 30% if Brianna DeMike, ZenContent’s co-founder, is terminated by IZEA for cause or she terminates her employment without good reason. As a result, the Company initially reduced its acquisition cost liability by $300,000 to be accrued as compensation expense over the three-year term rather than allocated to the purchase price in accordance with ASC 805-10-55-25. Compensation expense added to the guaranteed acquisition costs payable and recorded as general and

administrative expense during the three months ended June 30, 2017 was $61,459. We also estimate the fair value of the $2,500,000 of the future contingent performance payments for the ZenContent purchase each quarter using a Monte-Carlo simulation to simulate revenue based on actual results and future projections. Based on this calculation, we determined that the current fair value of the contingent performance payments was $342,861 as of June 30, 2017 compared to $366,334 as of March 31, 2017. As a result of the change in the value, we recorded a $23,473 reduction in general and administrative expense during the three months ended June 30, 2017. Of this amount, $6,473 was allocated to reduce compensation expense and $17,000 was allocated as a reduction in the fair value of the contingent

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performance payments. To the extent that our future estimates in the value of contingent performance payments changes, this will continue to affect our general and administrative expense.

Sales and marketing expenses consist primarily of personnel costs related to employees and consultants who support sales and marketing efforts, promotional and advertising costs, and trade show expenses. Sales and marketing expenses for the three months ended June 30, 2017 decreased by $186,351, or (7)%, compared to the same period in 2016. The decrease was primarily attributable to a $190,000 decrease in public relations, tradeshows and marketing event attendance in 2017 as a result of our cost reduction efforts for near term profitability.

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.

In prior years, we entered into financing transactions that gave rise to derivative liabilities. Additionally, we issue restricted stock that vests over future periods. 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 an expense of $8,420 and income of $26,421 resulting from the increase or decrease in the fair value of certain warrants and stock during the three months ended June 30, 2017 and 2016, 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.

The $12,756 change in other income (expense) is primarily the result of currency exchange losses related to our Canadian transactions during the three months ended June 30, 2017.

Net Loss

Net loss for the three months ended June 30, 2017 was $1,446,598, which decreased from a net loss of $1,626,345 for the same period in 2016. The reduction in net loss was primarily the result of the decrease in our operating expenses as discussed above.

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Results of Operations for the Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

Revenues

The following table illustrates our approximate revenue, cost of sales and gross profit by revenue stream for the six months ended June 30, 2017 and 2016:

	Six Months Ended							
	June 30, 2017		June 30, 2016		$ Change	% Change		
Revenue & % of Total								
Managed Services	$10,277,000	78 %	$8,904,000	72 %	$1,373,000	15.4	%	
Content Workflow	2,832,000	21 %	3,299,000	27 %	(467,000)	(14.2)	%	
Service Fees & Other Revenue	74,000	1 %	177,000	1 %	(103,000)	(58.2)	%	
Total Revenue	$13,183,000	100 %	$12,380,000	100 %	$803,000	6.5	%	
Cost of Sales & % of Total								
Managed Services COS	$4,002,000	60 %	$3,457,000	53 %	$545,000	15.8	%	
Content Workflow COS	2,636,000	40 %	3,063,000	47 %	(427,000)	(13.9)	%	
Service Fees & Other COS	—	— %	—	— %	—	100.0	%	
Total Cost of Sales	$6,638,000	100 %	$6,520,000	100 %	$118,000	1.8	%	
Gross Profit & Profit %								
Managed Services	$6,275,000	61 %	$5,447,000	61 %	$828,000	15.2	%	
Content Workflow	196,000	7 %	236,000	7 %	(40,000)	(16.9)	%	
Service Fees & Other Revenue	74,000	100 %	177,000	100 %	(103,000)	(58.2)	%	
Total Gross Profit	$6,545,000	50 %	$5,860,000	47 %	$685,000	11.7	%	

Revenues for the six months ended June 30, 2017 increased by $803,088, or 6%, compared to the same period in 2016. Managed Services increased $1,373,000, Content Workflow decreased $467,000 and Service Fee Revenue decreased $103,000 during the six months ended June 30, 2017 compared to the same period in 2016. Managed Services increased primarily due to concentrated sales efforts toward larger IZEA managed campaigns that have components of both custom content and influencer marketing resulting in higher revenue per salesperson, and repeat business from existing customers. Content Workflow generated from newspaper and traditional publishers through the Ebyline platform on a self-service basis declined compared to the same period in 2016 due to the ongoing consolidation and cutbacks in the newspaper industry. Although revenue from Content Workflow decreased by $467,000, or (14%), in the six months ended June 30, 2017, our gross margin only declined by $40,000, because the margins are fixed with these customers at only 7% to 9%. We expect to see continued declines in Content Workflow revenue up to 35% compared to prior year levels due to the overall decline in this industry. Service Fee Revenue decreased in the six months ended June 30, 2017 due to lower licensing fees generated from partners using our platforms.

We estimate that revenues from our Managed Services will continue to increase over 15% compared to the prior year, but this increase will be offset by the declines in the self-service Content Workflow noted above. We estimate that total revenue will be between $29-$30 million, with gross margins ranging between 48% to 49% for 2017.

Our net bookings of $14.4 million for the six months ended June 30, 2017 were higher than the net bookings of $14.3 million for the six months ended June 30, 2016. This minimal increase is due to a 2017 reduction on a 2016 booking by one customer of $1 million after they underwent budget cuts on previously committed funds. Nearly all of these bookings to date are expected to translate into revenue during 2017.

Cost of Sales and Gross Profit

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

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Cost of sales for the six months ended June 30, 2017 increased by $117,951, or 2%, compared to the same period in 2016. Cost of sales increased primarily due to the increase in our sales.

Gross profit for the six months ended June 30, 2017 increased by $685,137, or 12%, compared to the same period in 2016. Our gross profit as a percentage of revenue increased from 47% for the six months ended June 30, 2016 to 50% for the same period in 2017. The gross margin on our Managed Services for influencer marketing or custom content services was 61%, while the gross margin on Content Workflow was 7% for the six months ended June 30, 2017. Prior to being acquired by IZEA in 2015, Ebyline generated revenue primarily from newspaper and traditional publishers through their workflow platform on a self-service basis at a fixed 7% to 9% profit. We do not actively sell or market Content Workflow to new customers due to the low margins and challenges facing the newspaper industry. After the acquisition, this revenue stream still contributes a significant portion of our revenue, but we utilize the content creators to promote the sale of custom content to our marketers on a managed basis. These services are sold at comparable margins to our influencer marketing services.

The total gross profit increase was primarily attributable to the increase in revenue and contribution margin from our higher margin, Managed Services versus reduced revenue from our lower margin, Content Workflow. Managed Services contributed approximately 96% to the gross profit during the six months ended June 30, 2017 compared to 93% during the six months ended June 30, 2016. The mix of sales between our higher margin, Managed Services and lower margin, Content Workflow has a significant effect on our overall gross profit percentage.

The following table sets forth a summary of our statements of operations and the change between the periods:

	(Unaudited) Six Months Ended			
	June 30, 2017	June 30, 2016	$ Change	% Change
Revenue	$13,182,727	$12,379,639	$803,088	6.5 %
Cost of sales	6,637,707	6,519,756	117,951	1.8 %
Gross profit	6,545,020	5,859,883	685,137	11.7 %
Operating expenses:				
General and administrative	5,334,154	5,104,747	229,407	4.5 %
Sales and marketing	5,324,718	4,972,377	352,341	7.1 %
Total operating expenses	10,658,872	10,077,124	581,748	5.8 %
Loss from operations	(4,113,852)	(4,217,241)	103,389	2.5 %
Other income (expense):				
Interest expense	(30,348)	(32,750)	2,402	(7.3)%
Loss on exchange of warrants	—	—	—	100.0 %
Change in fair value of derivatives, net	(9,038)	29,273	(38,311)	(130.9)%
Other income (expense), net	(12,580)	1,753	(14,333)	(817.6)%
Total other income (expense), net	(51,966)	(1,724)	(50,242)	(2,914.3)%
Net loss	$(4,165,818)	$(4,218,965)	$53,147	1.3 %

Operating Expenses

Operating expenses consist of general and administrative expenses and sales and marketing expenses. Total operating expenses for the six months ended June 30, 2017 increased by $581,748, or 6%, compared to the same period in 2016. The increase was primarily attributable to increased personnel costs and additional marketing costs related to our IZEAFest Conference held in February 2017.

General and administrative expenses consist primarily of administrative and engineering personnel costs, general operating costs, public company costs, including non-cash stock compensation, acquisition costs, facilities costs, insurance, depreciation, professional fees, and investor relations costs. General and administrative expense for the six months ended June 30, 2017 increased by $229,407, or 4%, compared to the same period in 2016. The increase was primarily attributable to a $154,000 increase in personnel costs and in variable costs related to personnel such as software and subscription costs, communication, travel and supply costs. These costs increased as a result of an increase in the average number of our administrative and engineering personnel by 12% since the prior year period along with increased average salaries those personnel. Stock option expense decreased by approximately $64,000 due to completed vesting on prior option issuances and

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less option expense on newer option issuances to general and administrative personnel. Our depreciation and amortization expense increased by $125,000 as a result of additional amortization on the increase in our intangible assets from software costs and the intangibles acquired in the ZenContent acquisition.

General and administrative expense is affected by the changes in our ZenContent acquisition liability valuation that are allocated to compensation expense each period. On July 31, 2016, we reduced our acquisition cost liability for guaranteed purchase price payments by $300,000 to be accrued as compensation expense over the three-year payment term. Compensation expense added to the guaranteed acquisition costs payable and recorded as general and administrative expense during the six months ended June 30, 2017 was $122,917. We also determined that the current fair value of the $2,500,000 contingent performance payments for the ZenContent was $342,861 as of June 30, 2017 compared to $324,000 as of December 31, 2016. As a result of the change in the value, we recorded an $18,861 expense during the six months ended June 30, 2017. Of this amount, $74,861 was allocated to compensation expense and a gain of $56,000 was allocated as a reduction in the fair value of the contingent performance payments. To the extent that our future estimates in the value of contingent performance payments changes, this will continue to affect our general and administrative expense.

Sales and marketing expenses consist primarily of personnel costs related to employees and consultants who support sales and marketing efforts, promotional and advertising costs, and trade show expenses. Sales and marketing expenses for the six months ended June 30, 2017 increased by $352,341, or 7%, compared to the same period in 2016. The increase was primarily attributable to a $264,000 increase in personnel costs and related variable costs related to those personnel such as software and subscription costs, communication, travel and supply costs. These increases in the personnel costs are the result of higher level sales and support personnel with higher base salaries along with increases in bonuses and commissions paid on the increase in sales. Additionally, there was a $118,000 increase in public relations and marketing costs as a result of our IZEAFest Conference held in February 2017. These larger marketing spends were not in the first half of 2016, as the IZEAFest conference is held every 16-20 months, and the last IZEAFest conference was held in the fourth quarter of 2015.

Other Income (Expense)

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

Interest expense during the six months ended June 30, 2017 decreased by $2,402 to $30,348 compared to the same period in 2016 primarily due to the lower imputed interest on the remaining balance of acquisition costs payable.

In prior years, we entered into financing transactions that gave rise to derivative liabilities. Additionally, we issue restricted stock that vests over future periods. 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 expense of $9,038 and income of $29,273 resulting from the increase or decrease in the fair value of certain warrants and stock during the six months ended June 30, 2017 and 2016, respectively.

The $14,333 change in other income (expense) is primarily the result of currency exchange losses related to our Canadian transactions during the six months ended June 30, 2017.

Net Loss

Net loss for the six months ended June 30, 2017 was $4,165,818, which decreased from a net loss of $4,218,965 for the same period in 2016. The decrease in net loss was primarily the result of the increased revenue and profit margins on our Managed Services offset by the increase in personnel and marketing expenses as discussed above.

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Non-GAAP Financial Measures

Below are financial measures of cash based operating expenses ("Cash Opex") and Adjusted EBITDA. These are "non-GAAP financial measures" as defined under the rules of the Securities and Exchange Commission (the "SEC").

We define Cash Opex as total operating expenses exclusive of unusual or non-cash expenses such as depreciation and amortization, non-cash stock related compensation, gain or loss on asset disposals or impairment and changes in acquisition cost estimates, and gains or losses on settlement of liabilities, if applicable.

We define Adjusted 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 acquisition cost estimates, and all other non-cash income and expense items such as gains or losses on settlement of liabilities and exchanges, and changes in the fair value of derivatives, if applicable.

We use Cash Opex as a percentage of revenue and Adjusted EBITDA as measures of operating performance, for planning purposes, to allocate resources to enhance the financial performance of our business and in communications with our Board of Directors regarding our financial performance. We believe that Cash Opex as a percentage of revenue and Adjusted EBITDA also provide useful information to investors as they exclude transactions not related to our core cash operating business activities, including non-cash transactions, and they provide consistency and facilitate period-to-period comparisons. 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 Cash Opex and Adjusted EBITDA in the same manner, and Cash Opex and Adjusted EBITDA as presented by us may not be comparable to Cash Opex and Adjusted EBITDA presented by other companies, which limits their usefulness as comparative measures.

Moreover, Cash Opex and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation or as a substitute for an analysis of our results of operations as reported under generally accepted accounting principles in the United States ("GAAP"). These limitations include that Cash Opex and Adjusted EBITDA:

- do not include stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- do not include stock issued for payment of services, which is a non-cash expense, but has been, and is expected to be for the foreseeable future, an important means for us to compensate our vendors and other parties who provide us with services;
- do not include changes in acquisition cost estimates as a result of the allocation of acquisition costs payable to compensation expense or changes in the estimate of contingent acquisition costs payable, which may or may not ever be paid, but may be a significant recurring expense for our business if we continue to make business acquisitions;
- do not include gains or losses on the settlement of acquisition costs payable or liabilities when the stock value, as agreed upon in the agreement, varies from the market price of our stock on the settlement date, which is a non-cash expense, but will continue to be a recurring expense for our business on certain business contracts where the amounts can vary; and
- do not include depreciation and intangible assets amortization expense, impairment charges and gains or losses on disposal of equipment, which is not always a current period cash expense, but the assets being depreciated and amortized may have to be replaced in the future.

Furthermore, Adjusted EBITDA excludes changes in fair value of derivatives, interest expense and other gains, losses, and expenses that we do not believe are indicative of our ongoing results, but these items may represent a reduction or increase in cash available to us.

Because of these limitations, Cash Opex should not be considered as a measure of our total operating expenses, and Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the operation and growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP financial measures as supplements. In evaluating these non-GAAP financial measures, you should be aware that in the future we may incur expenses similar to those for which adjustments are made in calculating Adjusted EBITDA and Cash Opex. Our presentation of these non-GAAP financial measures should also not be construed to infer that our future results will be unaffected by unusual or non-recurring items.

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The following table sets forth a reconciliation from the GAAP measurement of Operating Expenses to our non-GAAP financial measure of Cash Opex and Cash Opex as a percentage of revenue for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total operating expenses	$4,950,993	$5,137,460	$10,658,872	$10,077,124
Less:				
Non-cash stock-based compensation	167,870	200,354	326,846	405,326
Non-cash stock issued for payment of services	22,830	41,220	83,462	72,470
(Gain) loss on disposal of equipment	(1,734)	—	(3,687)	—
(Gain) loss on settlement of acquisition costs payable	—	—	(10,491)	—
Increase (decrease) in value of acquisition costs payable	37,986	—	141,778	—
Depreciation and amortization	358,260	299,177	720,866	595,474
Total excluded expenses	585,212	540,751	1,258,774	1,073,270
Cash Opex	$4,365,781	$4,596,709	$9,400,098	$9,003,854
Revenue	$6,980,221	$6,913,689	$13,182,727	$12,379,639
Cash Opex / Revenue	63%	66%	71%	73%

The following table sets forth a reconciliation from the GAAP measurement of Net Loss to our non-GAAP financial measure of Adjusted EBITDA for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$(1,446,598)	$(1,626,345)	$(4,165,818)	$(4,218,965)
Non-cash stock-based compensation	167,870	200,354	326,846	405,326
Non-cash stock issued for payment of services	22,830	41,220	83,462	72,470
(Gain) loss on disposal of equipment	(1,734)	—	(3,687)	—
(Gain) loss on settlement of acquisition costs payable	—	—	(10,491)	—
Increase (decrease) in value of acquisition costs payable	37,986	—	141,778	—
Depreciation and amortization	358,260	299,177	720,866	595,474
Interest expense	13,272	11,411	30,348	32,750
Change in fair value of derivatives	8,420	(26,421)	9,038	(29,273)
Adjusted EBITDA	$(839,694)	$(1,100,604)	$(2,867,658)	$(3,142,218)

Although we estimate that operating expenses will increase for the year ending December 31, 2017 as a result of our continued expansion and investment in future growth, we expect that our Cash Opex as a percentage of revenue will decline in future quarters. We estimate that Adjusted EBITDA for the year ending December 31, 2017 will be approximately negative $4.0 million to $4.5 million as a result of our continued investment in sales and engineering staff necessary to increase our revenue and support our customers.

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Liquidity and Capital Resources

We had cash and cash equivalents of $3,563,540 as of June 30, 2017 as compared to $5,949,004 as of December 31, 2016, a decrease of $2,385,464 primarily due to the funding of our operating losses. We have incurred significant net losses and negative cash flow from operations for most periods since our inception, which has resulted in a total accumulated deficit of $45,975,539 as of June 30, 2017. To date, we have financed our operations through internally generated revenue from operations and the sale and exercise of our equity securities.

Cash used for operating activities was $2,308,970 during the six months ended June 30, 2017 and is the result of expenses exceeding the amount of gross margin provided from our revenues. Cash used for investing activities was $89,100 during the six months ended June 30, 2017 due to the payment of $94,000 related to the development of our proprietary software and purchases of computer and office equipment for our expanded staff. These payments were offset by a net decrease of $5,000 in leasehold deposits on our California and Canadian space. Cash provided by financing activities was $12,606 during the six months ended June 30, 2017 as a result of employee stock purchases of $16,232 offset by stock issuance costs of $3,626.

On January 30, 2015, we purchased all of the outstanding shares of capital stock of Ebyline. The stock purchase agreement required a cash payment at closing of $1,200,000, a stock issuance of $250,000 paid on July 30, 2015, and $1,877,064 paid in cash or stock in two equal installments of $938,532 on the first and second anniversaries of the closing. On January 29, 2016, we issued 114,398 shares of our common stock to satisfy the first annual guaranteed payment of $938,532 less $89,700 in closing related expenses. On January 30, 2017, we issued 200,542 shares of our common stock to satisfy the second and final annual guaranteed payment of $938,532. The stock purchase agreement also required contingent performance payments up to $5,500,000 to be paid if Ebyline met certain revenue targets in the three years following the closing. None of these targets were met in the first two years following the closing and it is not expected that they will be met in the third year. Therefore, we do not believe that we will be required to make any of the $5,500,000 in contingent performance payments and we currently expect that the total consideration to be paid for the Ebyline acquisition will be $3,327,064.

On July 31, 2016, we purchased all of the outstanding shares of capital stock of ZenContent. Upon closing we paid a cash payment of $400,000 and issued 86,207 shares of our common stock valued at $600,000. The agreement also requires (i) three equal annual installment payments totaling $1,000,000, commencing 12 months following the closing and (ii) contingent performance payments of up to an aggregate of $2,500,000 over the three 12-month periods following the closing, based upon ZenContent achieving certain minimum revenue thresholds. Of these payments, 33% of each such annual installment or contingent performance payment will be in the form of cash and the remainder of such payment will be in the form of either cash or additional shares of our common stock (determined at our option). If we decide to issue stock rather than make cash payments, this may result in the issuance of substantial amount of shares because the number of shares will be determined using the 30 trading-day volume-weighted average closing price of our common stock prior to the payment. On July 31, 2017, we paid $266,898 all in cash for the first annual installment of $333,333 less $66,435 in working capital adjustments.

We have a secured credit facility agreement with Western Alliance Bank. Pursuant to this agreement, we may submit requests for funding up to 80% of our eligible accounts receivable up to a maximum credit limit of $5 million. As of June 30, 2017, we had no advances outstanding under this agreement. Assuming that all of our accounts receivable balance was eligible for funding, we had available credit of $3,299,466 under the agreement as of June 30, 2017.

We believe that, with our current cash and our available credit line with Western Alliance, we will have sufficient cash reserves available to cover expenses for longer than the next twelve months. Given the volatility in U.S. equity markets and our normal working capital fluctuations, we may seek to raise additional capital at any time to supplement our operating cash flows to the extent we can do so on competitive market terms. In such event, an equity

financing may dilute the ownership interests of our common stockholders.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Use of Estimates

The preparation of the accompanying financial statements and related disclosures in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in the accompanying financial statements and the accompanying notes. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent

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assets and liabilities. When making these estimates and assumptions, we consider our historical experience, our knowledge of economic and market factors and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of the financial statements.

Accounts receivable are customer obligations due under normal trade terms. Uncollectability of accounts receivable is not significant since most customers are bound by contract and are required to fund us for all the costs of an "opportunity," defined as an order created by a marketer for a creator to develop or share content on behalf of a marketer. If a portion of the account balance is deemed uncollectible, we will either write-off the amount owed or provide a reserve based on the uncollectible portion of the account. Management determines the collectability of accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. We have a reserve of $220,000 for doubtful accounts as of June 30, 2017. We believe 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 our 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 six months ended June 30, 2017 and 2016.

Throughout 2013 and the first quarter of 2014, we developed our new web-based advertising exchange platform, IZEAx. This platform is being utilized both internally and externally to facilitate native advertising campaigns on a greater scale. We continue to add new features and additional functionality to this platform each year. These new features will enable IZEAx to facilitate the contracting, workflow, and delivery of direct custom content as well as provide for invoicing, collaborating, and direct payments for our SaaS customers. In accordance with ASC 350-40, Internal Use Software and ASC 985-730, Computer Software Research and Development, research phase costs should be expensed as incurred and development phase costs including direct materials and services, payroll and benefits and interest costs may be capitalized. As a result, we have capitalized $1,578,125 in direct materials, consulting, payroll and benefit costs to software development costs in the consolidated balance sheet as of June 30, 2017. We estimate the useful life of our software to be 5 years, consistent with the amount of time our legacy platforms were in-service, and we are amortizing the software development costs over this period.

We derive revenue from three sources: Managed Services, Content Workflow, and Service Fee Revenue. Managed Services is when a marketer, typically a brand, agency or partner, contracts IZEA to provide custom content, influencer marketing or amplification services. Content Workflow is derived from the self-service use of our Ebyline platform by news agencies to handle their content workflow from initial content request to payment of content received. Service Fee Revenue is generated when fees are charged to customers 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. We recognize revenue at various times depending on the service that is being performed.

For our Managed Services, we enter into an agreement to provide services that may require multiple deliverables in the form of (a) sponsored social items, such as blogs, tweets, photos or videos shared through social network offerings that provide awareness or advertising buzz regarding the marketer's brand; (b) content promotion, such as click-through advertisements appearing in websites and social media channels and (c) original content items, such as a research or news article, informational material or videos that a publisher or other marketer can use. We may provide one type or a combination of all types of these deliverables including a management fee on a statement of work for a lump sum fee. These deliverables are to be provided over a stated period that may range from one day to one year. Each item is considered delivered once the custom content has been delivered to the customer or once the content is distributed live through a public or social network. Revenue is accounted for separately on each of the deliverables in

the time frames set forth below. Payment terms are typically 30 days from the invoice date. If we are unable to provide a portion of the services, we may agree with the customer to provide a different type of service or to provide a credit for the value of those services, which may be applied to the existing order or used for future services. The statement of work typically provides for a cancellation fee if the agreement is canceled by the customer prior to our completion of services. We recognize revenue on influencer marketing services after a marketer'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 from advertising campaigns managed by us are recognized ratably over the term of the campaign which may range from a few days to one year. Revenue on custom content provided to a marketer is recognized when the content is delivered to and accepted by the customer.

For Content Workflow services, the self-service marketer contracts the creators directly to provide custom content. The Ebyline platform controls the contracting, description of services, acceptance of and payment for the requested content. This

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service is used primarily by news agencies to control the outsourcing of their content needs. Revenue is recognized when the transaction is completed by the creator and accepted by the marketer.

Service Fee Revenue is recognized immediately when the service is performed or at the time an account becomes dormant or is cashed out. Service Fee Revenue for subscription or licensing fees is recognized straight-line over the term of service.

Marketers who use us to manage their social advertising campaigns or custom content requests may prepay for services or request credit terms. Payments received or billings in advance of completed services are recorded as unearned revenue until earned as described above.

All of our revenue is generated through the rendering of services and is recognized under the general guidelines of Staff Accounting Bulletin Topic 13 A.1, which states that revenue will be recognized when it is realized or realizable and earned. We consider our 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 marketer or customer is fixed (required to be paid at a set amount that is not subject to refund or adjustment) and determinable, and (iv) collectability is reasonably assured. We record revenue on the gross amount earned since we generally are the primary obligor in the arrangement, take on credit risk, establish the pricing and determine the service specifications.

Stock-based compensation 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. We estimate the fair value of each stock option as of the date of grant using the Black-Scholes pricing model. Options typically vest ratably over four years with one-fourth of options vesting one year from the date of grant and the remaining options vesting monthly, in equal increments over the remaining three-year period and generally have five or ten-year contract lives. We estimate the fair value of our common stock using the closing stock price of our common stock on the date of the option award. We estimate the volatility of our 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 us. We determine the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. We use the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. We have never paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We estimate 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.

The following table shows the number of options granted under our 2011 Equity Incentive Plans and the assumptions used to determine the fair value of those options during the six months ended June 30, 2017 and 2016:

2011 Equity Incentive Plans - Options Granted

Period Ended	Total Options Granted	Weighted Average Exercise Price	Weighted Average Expected Term	Weighted Average Volatility	Weighted Average Risk Free Interest Rate	Weighted Average Grant Date Fair Value
December 31, 2016	179,998	$6.16	6.0 years	47.95%	1.58%	$2.88
June 30, 2017	55,003	$3.64	6.0 years	43.78%	2.03%	$1.60

There were outstanding options to purchase 977,793 shares with a weighted average exercise price of $6.26 per share, of which options to purchase 635,371 shares were exercisable with a weighted average exercise price of $6.24 per share as of June 30, 2017. The intrinsic value on outstanding options as of June 30, 2017 was $0. The intrinsic value on exercisable options as of June 30, 2017 was $0.

We account for derivative instruments in accordance with ASC 815, Derivatives and Hedging, which requires additional disclosures about the our objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements. We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of 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

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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.

Recent Accounting Pronouncements

See "Note 1. Summary of Significant Accounting Policies," under Item 1 in Part I of this Form 10-Q.

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ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

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ITEM 4 – CONTROLS AND PROCEDURES

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

In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Furthermore, controls and procedures could be circumvented by the individual acts of some persons, by collusion or two or more people or by management override of the control. Misstatements due to error or fraud may occur and not be detected on a timely basis.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this quarterly report on Form 10-Q for the period ended June 30, 2017, an evaluation was performed under the supervision and with the participation of the Company's management including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") to determine the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2017. Based on this evaluation, our management concluded that our disclosure controls and procedures were effective as of June 30, 2017 to provide reasonable assurance that the information required to be disclosed by us in reports or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company’s transactions;
(ii) provide reasonable assurance that transactions are recorded as necessary for the preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are made only in accordance with authorizations of our management and directors; and
(iii) provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect financial statement misstatements. Also, projections of any evaluation of internal control effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There were no significant changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is, however, subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any legal proceedings or claims that we believe would or could have, individually or in the aggregate, a material adverse effect on us. Regardless of final outcomes, however, any such proceedings or claims, may nonetheless impose a significant burden on management and employees and may come with costly defense costs or unfavorable preliminary interim rulings.

ITEM 1A – RISK FACTORS

In addition to the information set forth under Item 1A of Part I to our Annual Report on Form 10-K for the year ended December 31, 2016, the information set forth at the beginning of Management's Discussion and Analysis entitled "Special Note Regarding Forward-Looking Information," and updates noted below, you should consider that there are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. If any of these risks actually occur, our business, financial condition or results of operation may be materially and adversely affected. In such case, the trading price of our common stock could decline and investors could lose all or part of their investment. These risk factors may not identify all risks that we face and our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Risks Related to our Business and Industry

We have a history of annual net losses, expect future losses and cannot assure you that we will achieve profitability.

We have incurred significant net losses and negative cash flow from operations for most periods since our inception, which has resulted in a total accumulated deficit of $45,975,539 as of June 30, 2017. For the six months ended June 30, 2017, we had a net loss of $4,165,818, including a $4,113,852 loss from operations and we expect to incur a net loss for the fiscal year 2017. Although our revenue has increased since inception, we have not achieved profitability and cannot be certain that we will be able to maintain these growth rates or realize sufficient revenue to achieve profitability. If we achieve profitability, we may not be able to sustain it.

If we fail to retain existing customers or add new customers, our revenue and business will be harmed.

We depend on our ability to attract and retain customers that are prepared to offer products or services on compelling terms through IZEAx. Additionally, we rely on customers who purchase direct custom content from our creators in our platforms. We must continue to attract and retain customers in order to increase revenue and achieve profitability. We had no customers that accounted for more than 10% of our revenue and one customer that accounted for 11% of our revenue during the six months ended June 30, 2017 and 2016, respectively. The loss of customers or a significant reduction in revenue from our major customers could have a material adverse effect on our results of operation. Moreover, if customers do not find our marketing and promotional services effective, they are not satisfied with content they receive, or they do not believe that utilizing our platforms provides them with a long-term increase in value, revenue or profit, they may stop using our platforms or managed services. In addition, we may experience attrition in our customers in the ordinary course of business resulting from several factors, including losses to competitors, mergers, closures or bankruptcies. If we are unable to attract new customers in numbers sufficient to grow our business, or if too many customers are unwilling to offer products or services with compelling terms to our creators through our platforms or if too many large customers seek extended payment terms, our operating results will

be adversely affected.

We may fail to meet publicly announced financial guidance or other expectations about our business, which could cause our stock to decline in value.

From time to time, we provide preliminary financial results or forward-looking financial guidance, to our investors, including the guidance provided above under "Management's Discussion and Analysis." Such statements are based on our current views, expectations and assumptions and involve known and unknown risks and uncertainties that may cause actual results, performance, achievements or share prices to be materially different from any future results, performance, achievements or share prices expressed or implied by such statements. Such risks and uncertainties include, among others:

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changes to the assumptions used to forecast or calculate such guidance, the risk that our business does not perform as expected, changes in the markets for our products and services and risks related to competitive factors. Such risks are summarized in the other risks factors included this Risk Factors section and under Item 1A of Part I to our Annual Report on Form 10-K for the year ended December 31, 2016.

Risks Relating to our Common Stock

Exercise of stock options, warrants and other securities will dilute your percentage of ownership and could cause our stock price to fall.

As of August 2, 2017, we had 5,706,152 shares of common stock issued, outstanding stock options to purchase 977,270 shares of our common stock at an average exercise price of $6.23 per share, and outstanding warrants to purchase 522,421 shares of our common stock at an average exercise price of $8.63 per share.

We also have reserved shares to issue stock options, restricted stock or other awards to purchase or receive up to 477,040 shares of common stock under our May 2011 Equity Incentive Plan and 39,764 shares of common stock under our 2014 Employee Stock Purchase Plan. In the future, we may grant additional stock options, restricted stock units, warrants and convertible securities, as well as issue additional shares of common stock pursuant to the earn-out provisions of the stock purchase agreements in connection with our Ebyline and ZenContent acquisitions. The exercise, conversion or exchange by holders of stock options, restricted stock units, warrants or convertible securities for shares of common stock, and the issuance of new shares pursuant to acquisition earn-out provisions, will dilute the percentage ownership of our other stockholders. Sales of a substantial number of shares of our common stock could cause the price of our common stock to fall and could impair our ability to raise capital by selling additional securities.

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

On January 30, 2017, we issued 200,542 shares of our common stock to satisfy the second and final annual guaranteed payment of $938,532 pursuant to the Ebyline Stock Purchase Agreement that could be paid in cash or stock at our election.

On February 12, 2017, the Company issued 7,109 shares valued at $30,000 as compensation for services a contractor provided.

The above issuances were exempt from registration under the Securities Act of 1933, as amended, pursuant to the exemptions from registration provided by Section 4(a)(2) thereof and Rule 506 promulgated thereunder. The recipients of these securities took such securities for investment purposes without a view to distribution. Furthermore, they each had access to information concerning the Company and its business prospects. There was no general solicitation or advertising for the purchase of the securities and the securities are restricted pursuant to Rule 144.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable

ITEM 5 - OTHER INFORMATION

None

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ITEM 6 – EXHIBITS

2.1		Stock Purchase Agreement, dated as of January 27, 2015, by and among IZEA, Inc., Ebyline, Inc. and the Stockholders of Ebyline, Inc. listed on the signature pages thereto (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on January 29, 2015).
2.2		Stock Purchase Agreement, dated as of July 31, 2016, by and among IZEA, Inc., ZenContent, Inc. and the Stockholders of ZenContent, Inc. (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on August 2, 2016).
3.1		Amended and Restated Articles of Incorporation of IZEA, Inc., filed with the Nevada Secretary of State on November 28, 2011 (incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 23, 2011).
3.2		Certificate of Change of IZEA, Inc., filed with the Nevada Secretary of State on July 30, 2012 (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on August 1, 2012).
3.3		Certificate of Amendment to Articles of Incorporation filed with the Secretary of State of the State of Nevada on April 17, 2014 (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on April 18, 2014).
3.4		Certificate of Withdrawal of Certificate of Designation filed with the Secretary of State of the State of Nevada effective January 23, 2015 (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on January 29, 2015).
3.5		Certificate of Amendment filed with the Secretary of State of the State of Nevada effective January 11, 2016 (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on January 12, 2016).
3.6		Amended and Restated Bylaws (incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 23, 2011).
3.7		Certificate of Designation (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on May 27, 2011).
3.8		Articles of Merger of IZEA Innovations, Inc. filed with the Secretary of State of the State of Nevada effective April 5, 2016 (Incorporated by reference to Form 10-Q, filed with the SEC on May 11, 2016).
10.1	(a)	Amended and Restated 2011 Equity Incentive Plan as of May 8, 2017 (Incorporated by reference to Form 8-K, filed with the SEC on June 22, 2017).
31.1	*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	*	Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	* (b)	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	* (b)	Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	*	The following materials from IZEA, Inc.'s Annual Report on Form 10-Q for the quarter ended June 30, 2017 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations, (iii) the Unaudited Consolidated Statement of Stockholders' Equity, (iv) the Unaudited Consolidated Statements of Cash Flow, and (iv) Notes to the Unaudited Consolidated Financial Statements.

*Filed or furnished herewith.

(a) Denotes management contract or compensatory plan or arrangement.

(b)

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

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SIGNATURES

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

IZEA, Inc.
a Nevada corporation

August 10, 2017 By: /s/ Edward H. Murphy
Edward H. Murphy
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

August 10, 2017 By: /s/ LeAnn C. Hitchcock
LeAnn C. Hitchcock
Chief Financial Officer
(Principal Financial and Accounting Officer)