Accelerize Inc.
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2018**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number: **000-52635**

ACCELERIZE INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3858769**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20411 SW BIRCH STREET, SUITE 250

NEWPORT BEACH,

CALIFORNIA 92660

(Address of principal executive offices)

(949) 548 2253

(Registrant's Telephone Number, including Area Code)

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

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [X]	Smaller reporting company [X]
	Emerging growth company [ ]

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

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

The number of shares outstanding of the registrant's Common Stock, $0.001 par value per share, as of November 14, 2018, was 66,179,709.

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

1

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-Q contains certain forward-looking statements. Forward-looking statements may include our statements regarding our goals, beliefs, strategies, objectives, plans, including product and service developments, future financial conditions, results or projections or current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. For example, when we discuss our pursuit of strategic transactions including acquisitions, dispositions, capital raising and debt restructuring, that our revenues will increase in 2018, and that we intend to invest in sales, marketing, product development and innovation, we are using forward-looking statements. These statements are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those contemplated by the forward-looking statements. These factors include, but are not limited to, our ability to implement our strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. The business and operations of Accelerize Inc. are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Further information on potential factors that could affect our business is described under “Item 1A. Risk Factors” in our annual report on Form 10-K as filed with the Securities and Exchange Commission, or the SEC, on March 27, 2018 and in this quarterly report on Form 10-Q. Readers are also urged to carefully review and consider the various disclosures we have made in this report and in our annual report on Form 10-K.

ACCELERIZE INC.

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACCELERIZE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets:		
Cash	$1,808,029	$166,883
Restricted cash	50,000	50,000
Accounts receivable, net of allowance for bad debt of $268,923 and $471,144, respectively	2,130,476	2,692,636
Prepaid expenses and other assets	330,455	548,343
Total current assets	4,318,960	3,457,862
Property and equipment, net of accumulated depreciation of $788,587 and $775,152, respectively	63,975	69,405
Intangible assets, net of accumulated amortization of $2,938,350 and $2,512,203, respectively	4,624,377	3,925,523
Other assets	109,777	123,124
Total assets	$9,117,089	$7,575,914
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable and accrued expenses	$2,278,096	$2,479,083
Deferred revenues	564,002	299,937
Credit facility, short term	3,501,487	3,055,812
Other short-term loan, net of unamortized deferred financing cost of $0 and $0, respectively	-	1,224,194
Total current liabilities	6,343,585	7,059,026
Credit facility, net of unamortized deferred financing cost of $1,745,491 and $245,584, respectively	6,404,754	4,402,988

Other loan, related party net of unamortized deferred financing cost of $180,209 and $0, respectively	369,791	-
Other loan net of unamortized deferred financing cost of $744,205 and $82,868, respectively	2,205,795	267,938
Other liabilities	743,750	1,062,500
Total liabilities	16,067,675	12,792,452
Stockholders' Deficit:		
Series A Preferred stock; $0.001 par value; 54,000 shares authorized; None issued and outstanding.	-	-
Series B Preferred stock; $0.001 par value; 1,946,000 shares authorized; None issued and outstanding.	-	-
Common stock; $0.001 par value; 100,000,000 shares authorized; 66,179,709 and 65,939,709 shares issued and outstanding, respectively	66,178	65,938
Additional paid-in capital	29,371,783	26,301,748
Accumulated deficit	(36,326,324)	(31,542,684)
Accumulated other comprehensive loss	(62,223)	(41,540)
Total stockholders’ deficit	(6,950,586)	(5,216,538)
Total liabilities and stockholders’ deficit	$9,117,089	$7,575,914

See Notes to Unaudited Condensed Consolidated Financial Statements.

ACCELERIZE INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues:	$5,292,304	$6,065,674	$16,682,730	$18,016,552
Cost of revenue	2,042,435	2,749,975	6,865,431	6,660,684
Gross profit	3,249,869	3,315,699	9,817,299	11,355,868
Operating expenses:				
Research and development	1,033,707	1,031,878	3,144,106	3,208,434
Sales and marketing	1,127,055	1,119,302	3,359,247	3,419,095
General and administrative	2,372,359	1,554,982	6,278,522	5,232,896
Total operating expenses	4,533,121	3,706,162	12,781,875	11,860,425
Operating loss	(1,283,252)	(390,463)	(2,964,576)	(504,557)
Other income (expense):				
Other income (loss)	(222)	2	564	744
Other expense	(679,663)	(305,284)	(1,819,628)	(863,865)
Total other (expense)	(679,885)	(305,282)	(1,819,064)	(863,121)
Net loss	$(1,963,137)	$(695,745)	$(4,783,640)	$(1,367,678)
Net loss per share:				
Basic	$(0.03)	$(0.01)	$(0.07)	$(0.02)
Diluted	$(0.03)	$(0.01)	$(0.07)	$(0.02)
Basic weighted average common shares outstanding	66,177,101	65,520,434	66,019,709	65,356,201
Diluted weighted average common shares outstanding	66,177,101	65,520,434	66,019,709	65,356,201

See Notes to Unaudited Condensed Consolidated Financial Statements.

ACCELERIZE INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net loss	$(1,963,137)	$(695,745)	$(4,783,640)	$(1,367,678)
Foreign currency translation loss	(7,166)	12,841	(20,683)	32,098
Total other comprehensive loss	(7,166)	12,841	(20,683)	32,098
Comprehensive loss	$(1,970,303)	$(682,904)	$(4,804,323)	$(1,335,580)

See Notes to Unaudited Condensed Consolidated Financial Statements.

ACCELERIZE INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine-month periods ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(4,783,640)	$(1,367,678)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	461,893	612,639
Amortization of debt discount and deferred financing cost	636,125	180,204
Provision for bad debt	(202,221)	(48,586)
Fair value of options and warrants	342,698	633,997
Loss on sale of fixed assets	997	902
Changes in operating assets and liabilities:		
Accounts receivable	764,381	(196,315)
Prepaid expenses and other assets	147,888	(129,077)
Accounts payable and accrued expenses	(415,072)	(641,049)
Deferred revenues	264,065	18,213
Other assets	13,346	(20,016)
Net cash used in operating activities	(2,769,540)	(956,766)
Cash flows from investing activities:		
Capitalized software for internal use	(1,125,000)	(1,347,075)
Capital expenditures	(31,579)	(44,125)
Proceeds from sale of assets	750	795
Net cash used in investing activities	(1,155,829)	(1,390,405)
Cash flows from financing activities:		
Principal repayments of credit facility and loan	(2,402,652)	(1,653,282)
Proceeds from credit facility	5,489,850	1,923,000
Proceeds from promissory notes	3,500,000	1,000,000
Repayments of promissory notes	(1,000,000)	-
Net cash provided by financing activities	5,587,198	1,269,718
Effect of exchange rate changes on cash	(20,683)	32,098
Net increase (decrease) in cash	1,641,146	(1,045,355)
Cash, beginning of period	216,883	1,730,127
Cash, end of period	$1,858,029	$684,772

Supplemental disclosures of cash flow information:		
Cash paid for interest	$1,133,678	$613,240
Cash paid for income taxes	$-	$-
Non-cash investing and financing activities:		
Fair value of warrants issued in connection with credit facility and promissory notes	$2,727,577	$104,676
Repayment of Agility Loan, included in accounts payable	$-	$25,000
Capital expenditure included in account payable	$1,739	$-
Shares issued for cashless exercise of options and warrants	$-	$1,868
Accrued payables and short-term loan directly paid off by credit facility	$680,149	$-
Prepaid expenses reclassed to deferred financing cost	$70,000	$-
Deferred financing cost incurred in connection with promissory notes	$75,000	$-
Reconciliation of Cash and Cash Equivalents and Restricted Cash:		
Cash and cash equivalents at beginning of period	$166,883	$1,680,127
Restricted cash at beginning of period	$50,000	$50,000
Cash and cash equivalents and restricted cash at beginning of period	$216,883	$1,730,127
Cash and cash equivalents at end of period	$1,808,029	$634,772
Restricted cash at end of period	$50,000	$50,000
Cash and cash equivalents and restricted cash at end of period	$1,858,029	$684,772

See Notes to Unaudited Condensed Consolidated Financial Statements.

ACCELERIZE INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION, DESCRIPTION OF BUSINESS AND GOING CONCERN

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

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

These unaudited condensed consolidated financial statements reflect all adjustments including normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the financial position, results of operations, and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. These unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with the Company's consolidated financial statements and notes thereto for the years ended December 31, 2017 and 2016, respectively, which are included in the Company's December 31, 2017 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission on March 27, 2018. The Company assumes that the users of the interim financial information herein have read, or have access to, the audited consolidated financial statements for the preceding period, and that the adequacy of additional disclosure needed for a fair presentation of these may be determined in that context. The results of operations for the three and nine-month periods ended September 30, 2018 are not necessarily indicative of results for the entire year ending December 31, 2018.

The accompanying consolidated financial statements have been prepared on a going concern basis which implies the Company will continue to meet its obligations for the next 12 months as of the date these financial statements are issued.

The Company had a working capital deficit of $2,024,625 and an accumulated deficit of $36,326,324 as of September 30, 2018. The Company also had a net loss of $4,783,640 and cash used in operating activities of $2,769,540 during the nine months ended September 30, 2018.

Management’s plan to continue as a going concern includes raising capital in the form of debt or equity, increased gross profit from revenue growth and managing and reducing operating and overhead costs. During the second quarter of 2018, the Company engaged a nationally recognized investment bank to assist management in pursuing strategic transactions including acquisitions, dispositions, capital raising and debt restructuring. However, management cannot provide any assurances that the Company will be successful in accomplishing its plans. Management also cannot provide any assurance that unforeseen circumstances that could occur at any time within the next twelve months or thereafter will not increase the need for the Company to raise additional capital on an immediate basis. These matters, among others, raise substantial doubt about the ability of the Company to continue as a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

Principles of Consolidation

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenues and expenses during the reported period. Actual results will differ from those estimates. Included in these estimates are assumptions about collection of accounts receivable, useful life of fixed assets and intangible assets, and assumptions used in Black-Scholes-Merton, or BSM, valuation methods, such as expected volatility, risk-free interest rate, and expected dividend rate.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less when purchased, to be cash equivalents. The Company has restricted cash as a result of its corporate card program through its bank. The bank requires a collateral which is placed in a money market account and can be increased or decreased at any time at the discretion of the Company. The Company’s restricted cash amounted to $50,000 at September 30, 2018 and December 31, 2017.

Accounts Receivable

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

	September 30, 2018	December 31, 2017
Allowance for doubtful accounts	$ 268,923	$ 471,144

Long-Lived Assets

The Company accounts for long-lived assets in accordance with Accounting Standards Codification (“ASC”) Topic 360-10-05, “Accounting for the Impairment or Disposal of Long-Lived Assets.” ASC Topic 360-10-05 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset’s carrying value and fair value or disposable value.

Concentration of Credit Risks

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

The Company’s cash and cash equivalents accounts are held at a financial institution and are insured by the Federal Deposit Insurance Corporation, or the FDIC, up to $250,000. During the nine-month period ended September 30, 2018, the Company has reached bank balances exceeding the FDIC insurance limit. To reduce its risk associated with the failure of such financial institutions, the Company periodically evaluates the credit quality of the financial institution in which it holds deposits.

The Company's accounts receivable are due from customers, generally located in the United States, Europe, Asia, and Canada. None of the Company’s customers accounted for more than 10% of its accounts receivable at September 30, 2018 or December 31, 2017. The Company does not require any collateral from its customers.

Revenue Recognition

The Company recognizes revenue on arrangements in accordance with ASC 2014-09, Revenue from Contracts with Customers, Topic 606, which supersedes the revenue recognition requirements in FASB ASC 605. The guidance primarily states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Revenue is recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the resulting receivable is reasonably assured.

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

9

Product Concentration

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

Fair Value of Financial Instruments

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

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

Level 1:	Observable inputs such as quoted market prices in active markets for identical assets or liabilities.
Level 2:	Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3:	Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

Additional Disclosures Regarding Fair Value Measurements

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

Advertising

The Company expenses advertising costs as incurred.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Advertising expense	$140,907	$84,302	$415,358	$254,446

Income Taxes

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

Foreign Currency Translation

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

Software Development Costs

Costs incurred in the research and development of software products and significant upgrades and enhancements thereto during the preliminary project stage and the post-implementation operation stage are expensed as incurred. Costs incurred for maintenance and relatively minor upgrades and enhancements are expensed as incurred. Costs associated with the application development stage of new software products and significant upgrades and enhancements thereto are capitalized when 1) management implicitly or explicitly authorizes and commits to funding a software project and 2) it is probable that the project will be completed and the software will be used to perform the function intended. The Company capitalized internal-use software development costs of $1,125,000 during the nine months ended September 30, 2018. The Company amortizes such costs once the new software products and significant upgrades and enhancements are completed. The unamortized internal-use software development costs amounted to $4,624,377 and $3,925,523 at September 30, 2018 and December 31, 2017, respectively. The Company's amortization expenses associated with capitalized software development costs amounted to $105,000 and $426,146 during the three and nine-month periods ended September 30, 2018, respectively, and $193,935 and $509,039 during the three and nine-month periods ended September 30, 2017, respectively. Amortization of internal-use software is reflected in cost of revenues.

Share-Based Payment

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

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

Common stock awards

The Company has granted common stock awards to non-employees in exchange for services provided. The Company measures the fair value of these awards using the fair value of the services provided or the fair value of the awards granted, whichever is more reliably measurable. The fair value measurement date of these awards is generally the date the performance of services is complete. The fair value of the awards is recognized on a straight-line basis as services are rendered. The share-based payments related to common stock awards for the settlement of services provided by non-employees is recorded on the consolidated statement of comprehensive loss in the same manner and charged to the same account as if such settlements had been made in cash.

Warrants

In connection with certain financing, consulting and collaboration arrangements, the Company has issued warrants to purchase shares of its common stock. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of the awards using the Black-Scholes option pricing model as of the measurement date. Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants are recorded at fair value as expense over the requisite service period or at the date of issuance, if there is not a service period. Warrants granted in connection with ongoing arrangements are more fully described in Note 6, Stockholders' Equity.

Segment Reporting

The Company generated revenues from one source, its SaaS business, during the three and nine-month periods ended September 30, 2018 and 2017. The Company's chief operating decision maker evaluates the performance of the Company based upon revenues and expenses by functional areas as disclosed in the Company's statements of operations.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), which simplifies the goodwill impairment test. The effective date for ASU 2017-04 is for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of the new guidance on its financial statements.

In July 2018, the FASB issued ASU 2018-09 to provide clarification and correction of errors to the Codification. The amendments in this update cover multiple Accounting Standards Updates. Some topics in the update may require transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of the new guidance on its financial statements.

In January 2016, the FASB issued ASU No. 2016 01, *Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The guidance is effective in the first quarter of fiscal 2019. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. The Company is currently evaluating the impact of the new guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic* 842*)* and subsequently amended the guidance relating largely to transition considerations under the standard in January 2017. The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods and is to be applied utilizing a modified retrospective approach. The Company is currently evaluating the impact of the new guidance on its financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. Since the Company has not acquired any material businesses, this standard has no impact on its financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic* 230*): Restricted Cash*. The objective of this ASU is to eliminate the diversity in practice related to the classification of restricted cash or restricted cash equivalents in the statement of cash flows. For public business entities, this ASU is effective for annual and interim reporting periods beginning after December 15, 2017. The Company has adopted this standard on January 1, 2018, and it has had no material impact on its financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic* 718)*: Scope of Modification Accounting* (ASU 2016-09), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This pronouncement is effective for annual reporting periods beginning after December 15, 2017. The Company has adopted this standard on January 1, 2018 and it has had no material impact on its financial statements.

Other accounting pronouncements have been issued but deemed by management to be outside the scope of relevance to the Company.

<u>Basic and Diluted Earnings Per Share</u>

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Numerator:				
Net loss	$(1,963,137)	$(695,745)	$(4,783,640)	$(1,367,678)
Denominator:				
Denominator for basic earnings per share--weighted average shares	66,177,101	65,520,434	66,019,709	65,356,201
Effect of dilutive securities- when applicable:				
Stock options	-	-	-	-
Warrants	-	-	-	-
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	66,177,101	65,520,434	66,019,709	65,356,201
Loss per share:				
Basic	$(0.03)	$(0.01)	$(0.07)	$(0.02)
Diluted	$(0.03)	$(0.01)	$(0.07)	$(0.02)
Weighted-average anti-dilutive common share equivalents	29,229,427	17,091,949	26,043,047	16,579,396

Property and Equipment and Intangible Assets

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

Property and equipment and intangible assets consist of the following at:

	September 30, 2018	December 31, 2017
Computer equipment and software	$437,302	$431,497
Office furniture and equipment	124,900	120,420
Leasehold improvements	290,360	292,640
Total (1)	852,562	844,557
Accumulated depreciation (2)	(788,587)	(775,152)
Total	$63,975	$69,405
(1) Includes 6,150 in foreign exchange translation		
(2) Includes (3,085) in foreign exchange translation		
Intangible assets	$7,562,727	$6,437,726
Accumulated amortization	(2,938,350)	(2,512,203)
Total	$4,624,377	$3,925,523

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Depreciation expense	$10,035	$34,071	$35,747	$103,601
Amortization expense on intangible assets	$105,000	$193,935	$426,146	$509,038

During the three and nine-month periods ended September 30, 2018, the Company disposed of approximately $19,000 mostly in computer equipment with a net book value of approximately $2,000 for proceeds of $750.

During the three and nine-month periods ended September 30, 2017, the Company disposed of approximately $0 and $7,500 in computer equipment with a net book value of approximately $0 and $1,700 for proceeds of approximately $0 and $800, respectively.

NOTE 3: PREPAID EXPENSES

At September 30, 2018 and December 31, 2017, the Company's prepaid expenses consisted primarily of prepaid insurance and tradeshow costs.

NOTE 4: DEFERRED REVENUES

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

	September 30, 2018	December 31, 2017
Deferred revenues	$564,002	$299,937

NOTE 5: CREDIT FACILITY AND LOANS

Agility Loan

	September 30, 2018	December 31, 2017
Agility Loan	$625,000	$625,000
Amendment, added to balance	400,000	400,000
Principal Payment of Agility Loan	(450,000)	(425,000)
Less: Loan repayment	(575,000)	-
Balance	$-	$600,000

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

In connection with the Agility Loan, on June 30, 2016, as a result of outstanding amounts under the Agility Loan, the Company issued to Agility Capital a warrant to purchase up to 69,444 shares of the Company's Common Stock at an exercise price of $0.45 per share. This warrant expires on March 11, 2021. The fair value of the warrant amounted to $15,880 and was capitalized as deferred financing costs, of which $0 and $3,970 was expensed during the three and nine-month periods ended September 30, 2017, respectively, and $0 was expensed during 2018.

On November 29, 2016, the Company entered into an amendment of the Agility Loan which waived any event of default and the breach of any covenant, representation, warranty, and any other agreement contained in the Agility Loan as a result of the Company entering into a settlement agreement with respect to pending litigation between the Company and a former officer during November 2016, or the Settlement Agreement. On the date of the amendment, a loan modification fee in the amount of $100,000, fully earned and non-refundable, was added to the outstanding loan balance. Additionally, the maturity date was extended to December 31, 2017. On November 29, 2016, the Company issued to Agility Capital a warrant to purchase up to 187,500 shares of the Company's Common Stock at an exercise price of $0.40 per share. This warrant expires on November 29, 2021. The fair value of the warrant amounted to $42,427 and was capitalized as deferred financing costs, of which $9,791 and $29,372 was expensed during the three and nine-month periods ended September 30, 2017, respectively, and $0 was expensed during 2018.

On August 14, 2017, the Company entered into a consent to waiver of the Agility Loan, to permit the issuance of promissory notes to lenders, as further described below.

On November 8, 2017, the Company entered into the third amendment of the Agility Loan, or the Third Amendment, whereby Agility Capital agreed to loan an additional $300,000 to the Company, such that the aggregate principal amount owing to Agility Capital as of November 9, 2017 was $625,000. The Third Amendment extended the maturity date of the Agility Loan from December 31, 2017 to December 31, 2018. A loan modification fee of $125,000 was deducted from the Additional Loan amount. This arrangement was treated as a substantial modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”). Because the net present value of the modified notes was greater than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt extinguishment and reissuance of a new debt instrument, with the fair value of $606,034 and therefore recorded $106,034 as a loss on debt extinguishment. The carrying value of the $625,000 did not change as a result of the extinguishment since the discounts recognized at inception of these new notes were fully amortized at the time of the issuance.

On January 26, 2018, the Company repaid the Agility Loan by paying Agility Capital approximately $581,000 which terminated the loan agreement between the Company and Agility Capital and released Agility Capital’s security interest in Company assets. The Company owed $0 and $600,000 under the Agility Loan at September 30, 2018 and December 31, 2017, respectively.

Credit Facility - SaaS Capital Loan

	September 30, 2018	December 31, 2017
SaaS Capital Loan, Total advances	$10,253,000	$9,903,000
Principal Payment of SaaS Capital Loan	(4,601,269)	(2,198,616)
Less: Deferred financing cost	(151,649)	(245,584)
Less: SaaS Capital Loan, short term	(3,501,487)	(3,055,812)
SaaS Capital Loan, long term	$1,998,595	$4,402,988

On May 5, 2016, the Company entered into a loan and security agreement, or the SaaS Capital Loan, with SaaS Capital Funding II, LLC to borrow up to a maximum of $8,000,000. Initial amounts borrowed will accrue interest at the rate of 10.25% per annum with future amounts borrowed bearing interest at the greater of 10.25% or 9.21% plus the three-year treasury rate at the time of advance. Accrued interest on amounts borrowed is payable monthly for the first six months and thereafter 36 equal monthly payments of principal and interest is payable. Prepayments will be subject to a 10%, 6% or 3% of principal premium if prepaid prior to 12 months, between 12 and 24 months, or between 24 months and maturity, respectively. Advances may be requested until May 5, 2018. The initial minimum advance amount of $5,000,000, on May 5, 2016, was used to repay the outstanding line of credit balance of $4,572,223. A facility fee of $80,000 was paid by the Company in connection with the initial advance and an additional $80,000 was paid on May 5, 2017. Additionally, the Company incurred initial financing costs of $160,000 which was capitalized as deferred financing costs, of which $13,333 and $40,000 was expensed during the three and nine-month periods ended September 30, 2018 and 2017, respectively.

The SaaS Capital Loan contains customary covenants including, but not limited to, covenants to achieve specified Adjusted EBITDA levels and revenue renewal levels, limiting capital expenditures and restricting the Company's ability to pay dividends, purchase and sell assets outside the ordinary course and incur additional indebtedness. As of September 30, 2018, the Company was in compliance with such covenants. The occurrence of a material adverse change will be an event of default under the SaaS Capital Loan, in addition to other customary events of default. The Company granted SaaS Capital Funding II, LLC a security interest in all of the Company's personal property and intellectual property through the SaaS Capital Loan and the Patent, Trademark and Copyright Security Agreement between the Company and SaaS Capital Funding II, LLC.

On May 5, 2016, in connection with the SaaS Capital Loan, the Company issued to SaaS Capital Partners II, LP, an affiliate of SaaS Capital Funding II, LLC, a warrant to purchase up to 1,333,333 shares of the Company's common stock at an exercise price of $0.45 per share subject to certain adjustments for dividends, splits or reclassifications. The Warrant is exercisable until the earlier of May 5, 2026, or the date that is 5 years from the date the Company’s equity securities are first listed for trading on NASDAQ. The Company paid approximately $169,000 in financing costs through September 30, 2016. The fair value of the warrant amounted to $383,128 and was capitalized as deferred financing costs, of which $31,927 and $95,781 was expensed during the three and nine-month periods ended September 30, 2018 and 2017, respectively.

On November 29, 2016, the Company entered into an amendment of the SaaS Capital Loan to receive consent from SaaS Capital to enter into the Settlement Agreement. The amendment required a loan modification fee of $120,000, payable at $10,000 a month for one year, expensed in the statement of operations. In connection with this amendment, the Company agreed to issue SaaS Capital a warrant to purchase up to 200,000 shares of our Common Stock at an exercise price of $0.36 per share. This warrant expires on November 29, 2026. The fair value of the warrant amounted to $60,185 which was fully expensed at December 31, 2016.

On May 10, 2017, the Company entered into a second amendment of the SaaS Capital Loan which adjusted the Minimum Adjusted EBITDA covenant of the SaaS Capital Loan from $0 to ($150,000) until August 31, 2017 to give the Company added flexibility in completing its hosting migration to a new platform and to allow for potentially augmented marketing and sales efforts.

On June 16, 2017, the Company entered into a third amendment of the SaaS Capital Loan to provide that any advance made within 6 months of the final advance date will be for a 36-month period with interest only payments due from the date of advance until the final advance date.

On August 14, 2017, the Company entered into a fourth amendment of the SaaS Capital Loan to permit the issuance of promissory notes to lenders, further described below.

On November 8, 2017, the Company entered into a fifth amendment, or the Fifth Amendment, of the SaaS Capital Loan which adjusted the Minimum Adjusted EBITDA covenant of the SaaS Capital Loan from $0 to ($170,000) until October 31, 2017, to ($150,000) from November 1, 2017 to December 31, 2017, to ($100,000) from January 1, 2018 to May 31, 2018, to ($50,000) from June 1, 2018 to August 31, 2018, and to $0 thereafter. The Fifth Amendment added a new minimum liquidity covenant for a cash balance of $600,000 effective January 31, 2018. The Fifth Amendment also memorialized SaaS Capital's waiver of the Minimum Adjusted EBITDA covenant for September 2017. In connection with the Fifth Amendment, the Company agreed to pay to SaaS Capital a fee of $375,000 upon the payment in full of all outstanding advances.

On January 25, 2018, the Company entered into a sixth amendment, or the Sixth Amendment, of the SaaS Capital Loan to permit the Company to enter into the Beedie Credit Agreement, further described below, and to permit the repayment of Agility Capital and of the promissory notes to lenders, further described below. The Sixth Amendment also amended the Company's adjusted EBITDA covenant and added covenants requiring a minimum gross margin and specified debt to monthly recurring revenue ratios. This arrangement was treated as a normal modification of existing debt pursuant to the guidance of ASC 470-50 "Debt – Modifications and Extinguishments" ("ASC 470-50"). Because the net present value of the modified notes was lesser than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt modification. In connection with the Sixth Amendment, the Company agreed to issue SaaS Capital a warrant to purchase up to 200,000 shares of its Common Stock at an exercise price of $0.35 per share, subject to certain adjustments for dividends, splits or reclassifications. The fair value of the warrant amounted to $56,834 and was capitalized as deferred financing costs, of which $4,736 and $12,629 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On May 31, 2018, the Company entered into a seventh amendment, or the Seventh Amendment, of the SaaS Capital Loan to permit the issuance of promissory notes to lenders, as further described below, to amend the Company's adjusted EBITDA, revenue renewal and total debt to monthly recurring revenue covenants, to increase the success fee payable upon repayment of the facility by $120,000 to $495,000, and to fix prepayment penalties until October 31, 2018.

On June 13, 2018, the Company entered into an eighth amendment, or the Eighth Amendment, of the SaaS Capital Loan with SaaS Capital, to issue additional promissory notes, as further described below.

On August 31, 2018, the Company entered into a ninth amendment, or the Ninth Amendment, of the SaaS Capital Loan with SaaS Capital, to permit the issuance of promissory notes to lenders, as further described below, to amend the Company's minimum adjusted EBITDA, revenue renewal, total debt to monthly recurring revenue and secured debt to monthly recurring revenue covenants, to increase the success fee payable upon repayment of the facility to $555,000 and to provide for twice monthly reporting of the Company's projected cash flows.

During the nine-month period ended September 30, 2018, the Company borrowed $350,000 from the SaaS Capital Loan, and made principal payments of $2,402,653.

The Company owed $5,651,731 and $7,704,384 under the SaaS Capital Loan at September 30, 2018 and December 31, 2017, respectively.

<u>2017 Promissory Notes</u>

	September 30, 2018	December 31, 2017
Promissory Notes, Total	$1,000,000	$1,000,000
Principal Payment of Promissory Notes	(1,000,000)	-
Promissory Notes, Outstanding balance	-	1,000,000
Less: Deferred Financing cost	-	(82,868)
Less: Promissory Notes, short term	-	(649,194)
Balance	$-	$267,938

On August 14, 2017, the Company borrowed an aggregate of $1,000,000 from seven lenders, or the 2017 Lenders, and issued promissory notes, or the 2017 Promissory Notes, for the repayment of the amounts borrowed. The 2017 Lenders are all accredited investors, certain of the 2017 Lenders are shareholders of the Company, one of the 2017 Lenders is an affiliate of the Company's director, Greg Akselrud, and two of the 2017 Lenders are each affiliated with a partner of Mr. Akselrud's in the law firm of Stubbs Alderton and Markiles, LLP. The 2017 Promissory Notes are unsecured, have a maturity date of August 14, 2019 and all principal is due upon maturity. Amounts borrowed accrue interest at 12% per annum and accrued interest is payable monthly. The Company also issued to the 2017 Lenders three-year warrants to purchase an aggregate of 1,000,000 shares of the Company's Common Stock at an exercise price of $0.35 per share. The fair value of the warrant amounted to $104,676 and was capitalized as deferred financing costs, of which $0 and $82,868 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $8,723 and $8,723 was expensed during the three and nine-month periods ended September 30, 2017.

On January 26, 2018, the Company paid approximately $1,074,000 to repay the 2017 Promissory Notes which includes approximately $65,000 in additional interest expenses due to the repayment date which was prior to the maturity date. The Company owed $0 and $1,000,000 under the 2017 Promissory Notes at September 30, 2018 and December 31, 2017, respectively.

Beedie Credit Agreement

	September 30, 2018	December 31, 2017
Total advances	$6,000,000	$ -
Principal Payment of Loan	-	-
Less: Deferred financing cost	(1,593,841)	-
Balance	$4,406,159	$ -

On January 25, 2018, the Company entered into a non-revolving term credit agreement, or the Beedie Credit Agreement, with Beedie Investments Limited, or Beedie, to borrow up to a maximum of $7,000,000. Outstanding principal will accrue interest at the rate of 12% per annum increasing to 14% per annum if the Company's gross margins fall below amounts specified in the Beedie Credit Agreement. Accrued interest on outstanding principal is payable monthly in arrears. The Company paid Beedie a commitment fee of $175,000 and will pay to Beedie a monthly standby fee of 0.325% on the unadvanced and available amount. Advances may be requested until July 25, 2020 and outstanding principal must be paid in full on January 25, 2021. Prepayment, which if at the Company's option must be made in full and is otherwise required following certain asset dispositions, will be subject to a fee of 24 months accrued interest less all interest previously paid by the Company on the outstanding principal amount if paid prior to January 25, 2020. The initial minimum advance amount of $4,500,000 was advanced on January 26, 2018. Approximately $581,000 of the initial advance was used to repay Agility Capital to terminate the loan agreement between the Company and Agility dated March 11, 2016, as amended, and to release Agility Capital's security interest in Company assets. Approximately $1,074,000 of the initial advance was used to repay the 2017 Promissory Notes. The $175,000 commitment fee was capitalized as deferred financing costs, of which $14,583 and $38,888 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

The Beedie Credit Agreement contains customary covenants including, but not limited to, covenants to achieve specified adjusted EBITDA levels, to maintain minimum revenue renewal and liquidity levels, to maintain minimum gross margins, to maintain specified debt to monthly recurring revenue ratios, that limit capital expenditures and restrict the Company's ability to pay dividends, purchase and sell assets outside the ordinary course, and that limit the Company's ability to incur additional indebtedness. As of September 30, 2018, the Company was in compliance with such covenants. The occurrence of a material adverse change will be an event of default under the Beedie Credit Agreement, in addition to other customary events of default. Default interest will be charged at 18% per annum. The Company granted Beedie a security interest, subordinated to the security interest of SaaS Capital, in all of the Company's assets through a pledge and security agreement, patent security agreement and trademark security agreement, each between the Company and Beedie. As additional security, the Company's Subsidiary issued an unlimited guarantee to Beedie. Beedie is entitled to board of director observation rights during the term of the Beedie Credit Agreement.

In connection with the Beedie Credit Agreement, the Company issued to Beedie a warrant, or the Beedie Warrant, to purchase up to 4,500,000 shares of the Company's common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 26, 2019. Up to 2,500,000 additional shares of common stock under the Beedie Warrant will be exercisable on a pro rata basis to additional amounts borrowed if and when advanced under the Beedie Credit Agreement. The Company adopted ASU 2017-11 which revises ASC 815-10-15-74 to allow instruments with a down round feature to qualify for equity classification. Under the new guidance, the issuer would recognize the value of the feature only when it is activated and there is an actual reduction of the strike price or conversion feature. The value of the adjustment is then to be recorded as deemed dividend and a reduction of income available to common stockholders. The fair value of the warrant amounted to $1,099,861 and was capitalized as deferred financing costs, of which $91,655 and $244,413 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On May 31, 2018, the Company entered into a first amendment, or the First Beedie Amendment, of the Beedie Credit Agreement to permit the issuance of additional promissory notes to lenders, as further described below, to amend the Company's adjusted EBITDA, revenue renewal and total debt to monthly recurring revenue covenants, and to add a secured debt to monthly recurring revenue covenant. In addition, the Company issued to Beedie a warrant to purchase up to 500,000 shares of the Company's common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 25, 2019. This arrangement was treated as a normal modification of existing debt pursuant to the guidance of ASC 470-50 "Debt – Modifications and Extinguishments" (ASC 470-50). Because the net present value of the modified notes was lesser than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt modification. The fair value of the warrant amounted to $120,330 and was capitalized as deferred financing costs, of which $10,027 and $13,370 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On June 13, 2018, the Company entered into a second amendment, or the Second Beedie Amendment, of the Beedie Credit Agreement to issue additional promissory notes, as further described below. In addition, the Company issued to Beedie a warrant to purchase up to 100,000 shares of the Company's common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 25, 2019. This arrangement was treated as a normal modification of existing debt pursuant to the guidance of ASC 470-50 "Debt – Modifications and Extinguishments" (ASC 470-50). Because the net present value of the modified notes was lesser than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt modification. The fair value of the warrant amounted to $24,053 and was capitalized as deferred financing costs, of which $2,004 and $2,672 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On August 31, 2018, the Company entered into a third amendment, or the Third Beedie Amendment, of the Beedie Credit Agreement to borrow the second tranche of the term loan facility in the amount of $1,500,000, to permit the issuance of additional promissory notes to lenders, as further described below, to amend the commitment fee, to amend the Company's minimum adjusted EBITDA, revenue renewal, total debt to monthly recurring revenue and secured debt to monthly recurring revenue covenants and to provide for twice monthly reporting of the Company's projected cash flows. In connection with the Third Beedie Amendment, the Company issued to Beedie a warrant to purchase up to 1,500,000 shares of the Company's common stock and a warrant to purchase up to an additional 835,000 shares of the Company's common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 25, 2019. The fair value of these warrants amounted to $412,484 and was capitalized as deferred financing costs, of which $11,458 and $11,458 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

2018 Promissory Notes

	September 30, 2018	December 31, 2017
Promissory Notes, Total	$2,000,000	$ -
Principal Payment of Promissory Notes	-	-
Promissory Notes, Outstanding Balance	2,000,000	-
Less: Deferred Financing Cost	(655,305)	-
Less: Related Party Portion	(550,000)	
Balance	$794,695	$ -

On May 31, 2018, and June 15, 2018, the Company borrowed an aggregate of $1,500,000 and $500,000, respectively, from thirteen lenders, or the 2018 Lenders, and issued promissory notes, or the 2018 Promissory Notes, for the repayment of the amounts borrowed. The 2018 Lenders are all accredited investors, one of the 2018 Lenders is an affiliate of the Company's director, Greg Akselrud, one of the 2018 Lenders is an affiliate of the Company's Chief Financial Officer, Anthony Mazzarella, two of the 2018 Lenders are related to the Company's Chairman and Chief Executive Officer, Brian Ross, and two of the 2018 Lenders are employees of the Company. The 2018 Promissory Notes are unsecured, have a maturity date of May 30, 2021 and all principal is due upon maturity. Amounts borrowed accrue interest at 12% per annum and accrued interest is payable monthly. The Company also issued to the 2018 Lenders six-year warrants to purchase an aggregate of 3,000,000 shares of the Company's Common Stock at an exercise price of $0.35 per share. The fair value of the warrants amounted to $737,218 and was capitalized as deferred financing costs, of which $61,435 and $81,913 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

August 2018 Promissory Notes

	September 30, 2018	December 31, 2017
Promissory Notes, Total	$1,500,000	$ -
Principal Payment of Promissory Notes	-	-
Promissory Notes, Outstanding balance	1,500,000	-
Less: Deferred financing cost	(269,109)	-
Balance	$1,230,891	$ -

On August 31, 2018, the Company borrowed an aggregate of $1,500,000 from ten lenders, or the August 2018 Lenders, and issued promissory notes, or the August 2018 Promissory Notes, for the repayment of the amounts borrowed. The August 2018 Lenders are all accredited investors. The August 2018 Promissory Notes are unsecured, have a maturity date of August 30, 2021 and all principal is due upon maturity. Amounts borrowed accrue interest at 12% per annum and accrued interest is payable monthly. The Company also issued to the Lenders six-year warrants to purchase an aggregate of 1,500,000 shares of the Company's common stock exercisable for cash at an exercise price of $0.35 per share. The fair value of the warrants amounted to $276,798 and was capitalized as deferred financing costs, of which $7,689 and $7,689 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

The Company recognized amortization and interest expenses in connection with the credit facility and loans as follows.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Amortization expense associated with credit facility and loan	$251,718	$64,560	$636,125	$180,204
Interest expense associated with credit facility and loan	$422,051	$217,695	$1,133,678	$613,240
Other finance fees associated with credit facility and loan	$4,646	$24,125	$45,886	$72,375

NOTE 6: STOCKHOLDERS' DEFICIT

Common Stock

There were no exercises of options during the three and nine-month periods ended September 30, 2018.

During the nine-month period ended September 30, 2017, the Company issued 1,707,692 shares of its Common Stock pursuant to the cashless exercise of 2,400,000 options.

As of September 30, 2018, and December 31, 2017, there were 66,179,709 and 65,939,709 shares of Common Stock issued and outstanding, respectively.

Restricted Stock

During 2017, the Company issued 120,000 restricted shares of its Common Stock, at a value of $0.50 per share, vesting in 4 equal quarterly increments commencing on July 1, 2017, to each of its non-employee directors as partial annual compensation for services as a director. As of September 30, 2018, these restricted shares were fully issued. The Company recorded expenses of $30,000 and $60,000 during the three and nine-month periods ended September 30, 2018, respectively. $0 remained unvested as of September 30, 2018.

During the nine-month period ended September 30, 2018, the Company issued 120,000 restricted shares of its Common Stock, at a value of $0.50 per share, vesting in 4 equal quarterly increments commencing on July 1, 2018, to each of its non-employee directors as partial annual compensation for services as a director. As of September 30, 2018, these restricted shares were fully issued. The Company recorded expenses of $30,000 during the three and nine-month periods ended September 30, 2018. 90,000 shares remained unvested as of September 30, 2018.

Warrants

There were no exercises of warrants during the three and nine-month periods ended September 30, 2018. During the three and nine-month periods ended September 30, 2017, the Company issued 0 and 160,096 shares of its Common Stock pursuant to the cashless exercise of 225,000 warrants.

During the three and nine-month periods ended September 30, 2018, the Company issued 3,835,000 and 12,135,000 warrants related to its loans, at a fair value of $689,281 and $2,727,577, respectively, and were recognized as deferred financing costs and amortized using the effective interest method over the term of the associated loan. During the three and nine-month periods ended September 30, 2018, the Company issued 1,000,000 and 1,500,000 warrants to employees at a fair value of $204,730 and $335,891 and 58,824 warrants expired, respectively.

During the three and nine-month periods ended September 30, 2017, 46,875 warrants expired and the Company issued 1,000,000 warrants to the 2017 Lenders, exercisable at a price of $0.35 per share and which expire on August 14, 2020. The fair value of these warrants, which amounted to $104,676, were recognized as deferred financing fees and amortized using the effective interest method over the terms of the associated loan.

As of September 30, 2018, and December 31, 2017, there were 25,045,517 and 11,469,341 warrants issued and outstanding, respectively, with a weighted average price $0.53 and $0.74, respectively.

During the three and nine-month periods ended September 30, 2018 and 2017, the Company recorded expenses of $101,836 and $229,400 and $125,867 and $377,600, respectively.

Options

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

	Nine-month periods ended	
	September 30,	
	2018	2017
Weighted-average grant date fair value	$-	$-
Fair value of options, recognized as selling, general, and administrative expenses	$23,298	$166,397
Number of options granted	-	-

As of September 30, 2018 and December 31, 2017, there were 7,237,500 and 8,302,500 options, respectively, issued and outstanding with a weighted average price of $0.40 and $0.40 respectively.

The total compensation cost related to non-vested awards not yet recognized amounted to $18,457 at September 30, 2018 and the Company expects that it will be recognized over the following 24 months.

NOTE 7: COMPREHENSIVE LOSS

Comprehensive loss includes changes in equity related to foreign currency translation adjustments. The following table sets forth the reconciliation from net loss to comprehensive loss for the three and nine-month periods ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net loss	$(1,963,137)	$(695,745)	$(4,783,640)	$(1,367,678)
Other comprehensive loss:				
Foreign currency translation adjustment	(7,166)	12,841	(20,683)	32,098
Comprehensive loss	$(1,970,303)	$(682,904)	$(4,804,323)	$(1,335,580)

The following table sets forth the balance in accumulated other comprehensive loss as of September 30, 2018 and December 31, 2017, respectively:

	September 30, 2018	December 31, 2017
Accumulated other comprehensive loss	$(62,223)	$(41,540)

NOTE 8: SEGMENTS

The Company operates in one business segment. Percentages of sales by geographic region for the three and nine-month periods ended September 30, 2017 and 2016 were approximately as follows:

Three months ended September 30,		Nine months ended September 30,	
2018	2017	2018	2017

United States	64%	56%	62%	58%
Europe	15%	18%	17%	20%
Other	21%	26%	21%	22%

NOTE 9: COMMITMENTS AND CONTINGENCIES

During August 2017, the Company entered into an amendment to its original January 2014 lease for certain office space in Newport Beach. Pursuant to the lease amendment, effective March 1, 2018, the premises shall be expanded to include an additional 1,332 usable square feet such that the premises shall consist of 11,728 usable square feet in the aggregate. In addition, pursuant to the terms of the lease amendment, the Company extended the term of the lease agreement until June 30, 2023. Commencing on March 1, 2018, the initial base rent for the premises is $38,702 per month for the first year and increasing to $44,566 per month by the end of the term.

During October 2016, the Company amended its original May 2014 sublease and entered into a 21-month sublease in Newport Beach, effective June 1, 2016. The monthly base rent was approximately $4,100 through the end of the sublease term, in February 2018. As of September 30, 2018, this sublease has expired.

During July 2014, the Company entered into a five-year lease for certain office space in a business center in London, England, which commenced on July 30, 2014. The base rent is GBP 89,667 (approximately $115,000) per year and the estimated service charges for the lease are GBP 45,658 (approximately $56,000) per year.

Legal Proceedings

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

On November 29, 2016, the Company entered into the Settlement Agreement with Jeff McCollum, or McCollum, to settle pending litigation between the Company and McCollum in the Superior Court of the State of California related to McCollum’s termination as an executive officer of the Company on September 8, 2014. In connection with the Settlement Agreement, McCollum surrendered to the Company a stock certificate representing 1,890,000 shares of the Company’s Common Stock, or the Shares, and for dismissal with prejudice of the cross-complaint and action against the Company brought by McCollum. The Company agreed to pay McCollum a total of $2,700,000. $1,000,000 of this total has already been paid as of January 18, 2017, of which the Company’s insurance carrier contributed $500,000. The remaining $1,700,000 will be paid in 48 equal monthly installments starting on July 1, 2017. The Company previously cancelled McCollum’s options to purchase up to 6,600,000 shares of the Company’s Common Stock at exercise prices of $0.15 or $0.31 per share. The Company cancelled the 1,890,000 Shares and thereafter the Company's issued and outstanding common stock decreased by approximately 3%. During 2016, the Company recorded a loss on legal settlement of $2,200,000, net of the reimbursement of $500,000, which the Company received from its insurance carrier in December 2016. The outstanding settlement balance amounted to $1,168,750 and $1,487,500 as of September 30, 2018 and December 31, 2017, respectively, pursuant to the Settlement Agreement, of which $425,000 has been classified as accounts payable and accrued expenses as of September 30, 2018 and December 31, 2017 and $743,750 and $1,062,500, respectively, as other long-term liabilities, in the accompanying condensed consolidated balance sheet.

NOTE 10: SUBSEQUENT EVENTS

None

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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2017. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements. See "Cautionary Statement Regarding Forward Looking Information'' elsewhere in this report. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements

Overview

We own and operate CAKE and getcake.com, a marketing technology company that provides a proprietary solution for advanced analytics, attribution and campaign optimization for digital marketers. Our powerful software-as-a service, or SaaS, is an enterprise solution that has been an industry standard for advertisers, agencies, networks and publishers to measurably analyze and improve digital advertising spend. We currently have over 500 customers driving billions of consumer actions monthly through the CAKE enterprise platform.

In late 2017, we introduced Journey by CAKE, a new product family created specifically for brand advertisers and digital agencies. Journey by CAKE is a cloud-based solution that collects and analyzes customer journey data using multi-touch attribution for marketing campaign optimization. Journey by CAKE delivers accurate and actionable insights about the previously missing steps of the anonymous customer journey. With this extended view into vital customer interactions, Journey provides the intelligence needed to move unknown consumers to known customers, boosting campaign performance and return on advertising spend (RoAS). The main features are: Insights, a centralized dashboard which provides valuable customer journey insights that drive real-time decisions; Attribution, campaign spend optimization based on positional and data-driven attribution of key steps in the customer journey; and Connections, seamless integrations with digital media and marketing tools which make collecting customer journey data easier than ever. Journey by CAKE enables brands to move beyond the confines of siloed data and provides customer journey analytics for marketers, in real time.

On January 12, 2017, we announced that the CAKE platform was significantly enhanced with a new unified technical architecture and platform to collect and support high-traffic volumes. Now our industry-leading technology not only gathers granular information about the customer path to conversion, but also leverages data science and machine learning to further understand and maximize RoAS. Additionally, our patent-pending algorithmic attribution for predictive analytics clearly and accurately show marketers how to optimize campaigns. These new capabilities enhance our existing rules-driven attribution to programmatically allow marketers to analyze complex customer journeys; arming advertisers with more actionable insights needed to effectively measure the true impact of each media channel and maximize revenue for any given level of spending.

The CAKE SaaS proprietary marketing platform is used by some of the world's leading companies and largest customer-base of enterprise performance marketing networks and advertisers. CAKE's platform is based on reliable, feature rich technology and is bolstered by the industry's leading customer service and top-tier technology partners, assuring the highest level of uptime.

On February 14, 2017, Gartner, Inc. once again named us as a Vendor to Watch in its "Magic Quadrant for Digital Marketing Hubs" report. This research is intended for chief marketing officers (CMOs), chief marketing technologists and other digital marketing leaders involved in the selection of core systems to support digital marketing business requirements. According to Gartner, our solution enables hub-like multichannel data management and onboarding capabilities. CAKE is for enterprise performance marketers looking to track attribution and optimize data-driven lead generation and customer acquisition through affiliate and other digital marketing channels.

Our revenue model is based on monthly recurring license fees, usually pursuant to an annual contract. The contracts typically include a prescribed volume of clicks, impressions, or other events, and are subject to overage charges for volumes in excess of the included amounts. We also charge training and implementation fees, and in certain cases, professional services fees and royalties. A majority of our revenue is derived from customers in the United States. During November 2012, we formed Cake Marketing UK Ltd, a private limited company, which is our wholly-owned subsidiary located in the United Kingdom in order to better provide our services in the European market.

Our business is currently headquartered in Newport Beach, California, with operations in Santa Monica, California, London, England and New Delhi, India, allowing us to provide global support to our customer base. The CAKE platform supports multiple languages and currencies so online marketers can track the performance of their marketing campaigns and better target their digital spend on a global scale.

Our training, support personnel, hosting and cloud-based infrastructure contribute to our cost of operating the business. We anticipate spending in these areas will remain approximately constant during the remainder of 2018. In addition, development resources were required to continue to enhance our products. Those resources were used to extend our software platform and to create deeper integrations to third-party technologies that include, but are not limited to, Google AdWords, Bing Ads, Facebook, DoubleClick Campaign Manager (DCM), Marketo and others.

We intend to continue to invest in sales, marketing, product development and innovation. We allocated a portion of our marketing budget to being present at tradeshows, securing coverage in industry publications, and providing the support documentation required by sales initiatives. Additional efforts will be made to speak at industry events, write for media outlets and implement digital marketing campaigns, increasing awareness of the CAKE solutions and the thought leadership driving product development.

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

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

Results of Operations

ACCELERIZE INC.

UNAUDITED CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

	Three-month periods ended September 30, 2018	2017	$ Change	% Change	Nine-month periods ended September 30, 2018	2017	$ Change	% Change
Revenues:	$5,292,304	$6,065,674	(773,370)	-12.7%	$16,682,730	$18,016,552	(1,333,822)	-7.4%
Cost of revenue	2,042,435	2,749,975	(707,540)	-25.7%	6,865,431	6,660,684	204,747	3.1%
Gross Profit	3,249,869	3,315,699	(65,830)	-2.0%	9,817,299	11,355,868	(1,538,569)	-13.5%
Operating expenses:								
Research and development	1,033,707	1,031,878	1,829	0.2%	3,144,106	3,208,434	(64,328)	-2.0%
Sales and marketing	1,127,055	1,119,302	7,753	0.7%	3,359,247	3,419,095	(59,848)	-1.8%
General and administrative	2,372,359	1,554,982	817,377	52.6%	6,278,522	5,232,896	1,045,626	20.0%
Total operating expenses	4,533,121	3,706,162	826,959	22.3%	12,781,875	11,860,425	921,450	7.8%
Operating loss	(1,283,252)	(390,463)	(892,789)	228.6%	(2,964,576)	(504,557)	(2,460,019)	487.6%
Other income (expense):								
Other income	(222)	2	(224)	-11200.0%	564	744	(180)	-24.2%
Other expense	(679,663)	(305,284)	(374,379)	-122.6%	(1,819,628)	(863,865)	(955,763)	-110.6%
Total other expenses	(679,885)	(305,282)	(374,603)	-122.7%	(1,819,064)	(863,121)	(955,943)	-110.8%
Net loss	$(1,963,137)	$(695,745)	(1,267,392)	-182.2%	$(4,783,640)	$(1,367,678)	(3,415,962)	-249.8%

Discussion of Results for Three-Month and Nine-Month Periods Ended September 30, 2018 and 2017

Revenues

	Three Months Ended			Nine Months Ended		
	September 30,		%	September 30,		%
	2018	2017	Change	2018	2017	Change
Revenues	$5,292,304	$6,065,674	-12.7%	$16,682,730	$18,016,552	-7.4%

We generate revenues from monthly recurring license fees, overage fees (based on volume of transactions processed), training and implementation fees, and in certain cases, professional services fees and royalties. Our revenue breakdown for the three and nine-month periods ended September 30, 2018 and 2017 were as follows.

	Three Months Ended			Nine Months Ended		
	September 30,		%	September 30,		%
	2018	2017	Change	2018	2017	Change
License	$4,293,722	$4,828,655	-11.1%	$13,427,454	$14,654,627	-8.4%
Overage	774,117	1,000,218	-22.6%	2,528,472	2,656,909	-4.8%
Other	224,464	236,801	-5.2%	726,804	705,016	3.1%
Total	$5,292,304	$6,065,674	-12.7%	$16,682,730	$18,016,552	-7.4%

The decrease in total revenues during the three and nine-month periods ended September 30, 2018, when compared to the same periods in 2017, is mainly due to a decrease in overage fees as a result of our decision to terminate our relationship with a major customer.

The decrease in our software licensing revenues during the three and nine-month periods ended September 30, 2018, when compared to the same periods in 2017, is largely due to our decision to terminate a major customer, combined with reductions in transaction volume for several other customers. Our monthly recurring license fee revenue, which constitutes the contractually recurring portion of our revenue and comprises the bulk of our total revenue, or 80% for the nine-month period ended September 30, 2018, decreased approximately 11% and 8% year over year during the three and nine-month periods ended September 30, 2018, respectively, when compared to the same periods in 2017. In addition to impacting licensing revenues, reduced transaction volume also impacted overage fees, which decreased approximately 23% and 5% year over year during the three and nine-month periods ended September 30, 2018, respectively, when compared to the same periods in 2017. Our average monthly revenue per customer decreased approximately 10% and 4% during the three and nine-month periods ended September 30, 2018, respectively, when compared to the same periods in 2017.

We believe that there was substantial uncertainty and caution among some of our customers and our affiliate networks' customers in reaction to the European Union's recently instituted General Data Protection Regulation (GDPR). We believe this led to delays in some purchase decisions by new customers, as well as a temporary reduction in advertising activity among some current customers – likely contributing to our lower transaction volume and associated lower revenue.

Cost of Revenues

	Three Months Ended		%	Nine Months Ended		%
	September 30,		Change	September 30,		Change
	2018	2017		2018	2017	
Cost of revenues	$2,042,435	$2,749,975	-25.7%	$6,865,431	$6,660,684	3.1%

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

During the three and nine-month periods ended September 30, 2018, when compared to the same periods in 2017, cost of revenues decreased reflecting the lower web hosting fees of approximately $313,000 and increased reflecting the higher web hosting fees of approximately $647,000, respectively, incurred to support our customers and platform usage.

We believe that our cost of revenues will remain approximately constant during the remainder of 2018.

Research and Development Expenses

	Three Months Ended	%	Nine Months Ended	%

	September 30, 2018	2017	Change	September 30, 2018	2017	Change
Research and development	$1,033,707	$1,031,878	0.2%	$3,144,106	$3,208,434	-2.0%

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

Our research and development expenses remained constant and slightly decreased during the three and nine-month periods ended September 30, 2018, respectively, when compared to the same periods in 2017. The decrease was mainly due to lower capitalization of software development costs.

We believe that our research and development expenses will slightly increase during the remainder of 2018 as we continue to enhance features of our SaaS platform.

Sales and Marketing Expenses

	Three Months Ended		%	Nine Months Ended		%
	September 30,		Change	September 30,		Change
	2018	2017		2018	2017	
Sales and marketing	$1,127,055	$1,119,302	0.7%	$3,359,247	$3,419,095	-1.8%

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

We experienced a slight decrease in sales and marketing expenses during the nine-month period ended September 30, 2018, when compared to the same period in 2017, mainly due to a decrease in sales commissions.

We believe that our sales and marketing expenses will increase slightly in 2018 as we continue to execute on proven marketing programs.

General and Administrative Expenses

	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2018	2017		2018	2017	
General and administrative	$2,372,359	$1,554,982	52.6%	$6,278,522	$5,232,896	20.0%

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

The increase in general and administrative expenses during the three and nine-month periods ended September 30, 2018, when compared to the same periods in 2017, is primarily due to higher legal expenses of approximately $267,000, mostly related to work on our credit facility and loans, higher bad debt expenses of approximately $385,000, higher rent expenses of approximately $100,000, and approximately $120,000 in higher compensation related expenses.

We believe that our general and administrative expenses will remain approximately constant during the remainder of 2018.

Other Income

	Three Months Ended September 30, 2018	2017	% Change	Nine Months Ended September 30, 2018	2017	% Change
Other (loss) income	$(222)	$ 2	-11200.0%	$564	$744	-24.2%

Other Income during the three and nine-month periods ended September 30, 2018 consisted of small gain or loss on foreign exchange.

Other Expenses

	Three Months Ended September 30, 2018	2017	% Change	Nine Months Ended September 30, 2018	2017	% Change
Other expenses	$679,663	$305,284	-122.6%	$1,819,628	$863,865	-110.6%

Other expenses consist of interest charges and amortization of deferred financing costs associated with our credit facility and loans.

The increase in interest expenses during the three and nine-month periods ended September 30, 2018, when compared to the same periods in 2017, is primarily due to higher levels of borrowings we have made from time to time.

Liquidity and Capital Resources

We had a working capital deficit of $2,024,625 and an accumulated deficit of $36,326,324 as of September 30, 2018. We also had a net loss of $4,783,640 and cash used in operating activities of $2,769,540 as of September 30, 2018.

Our plan to continue as a going concern includes raising capital in the form of debt or equity, increased gross profit from revenue growth and managing and reducing operating and overhead costs. During the second quarter of 2018, we engaged a nationally recognized investment bank to assist us in pursuing strategic transactions including acquisitions, dispositions, capital raising and debt restructuring. However, we cannot provide any assurances that we will be successful in accomplishing our plans. We also cannot provide any assurance that unforeseen circumstances that could occur at any time within the next twelve months or thereafter will not increase the need for us to raise additional capital on an immediate basis. These matters, among others, raise substantial doubt about our ability to continue as a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

	Ending balance at September 30,		Average balance during nine-months ended September 30,	
	2018	2017	2018	2017
Cash	$1,808,029	$634,772	$987,456	$1,157,450
Restricted cash	50,000	50,000	50,000	50,000
Accounts receivable	2,130,476	2,474,511	2,411,556	2,352,061
Accounts payable and accrued expenses	2,278,096	2,344,121	2,378,590	2,491,565
Short term credit facility, net of deferred financing cost	3,501,487	2,736,684	3,278,650	2,387,815
Short term loan, net of deferred financing cost	-	839,403	612,097	673,135
Credit facility, net of deferred financing cost	6,404,754	4,498,346	5,403,871	4,543,287
Other loan, related party net of deferred financing cost	369,791	-	184,896	-
Other loan net of deferred financing cost	2,205,795	379,853	1,236,867	189,927
Long term other liabilities	743,750	1,168,750	903,125	1,328,125

At September 30, 2018 and 2017, 44% and 42%, respectively, of our total assets consisted of cash and cash equivalents and accounts receivable.

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

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

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

Agility Loan

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

In connection with the Agility Loan, on June 30, 2016, as a result of outstanding amounts under the Agility Loan, we issued to Agility Capital a warrant to purchase up to 69,444 shares of our Common Stock at an exercise price of $0.45 per share. This warrant expires on March 11, 2021. The fair value of the warrant amounted to $15,880 and was capitalized as deferred financing costs, of which $0 and $3,970 was expensed during the three and nine-month periods ended September 30, 2017, respectively, and $0 was expensed during 2018.

On November 29, 2016, we entered into an amendment of our Agility Loan which waived any event of default and the breach of any covenant, representation, warranty, and any other agreement contained in the Agility Loan as a result of our entering into the Settlement Agreement. On the date of the amendment, a loan modification fee in the amount of $100,000, fully earned and non-refundable, was added to the outstanding loan balance. Additionally, the maturity date was extended to December 31, 2017. On November 29, 2016, we issued to Agility Capital a warrant to purchase up to 187,500 shares of our Common Stock at an exercise price of $0.40 per share. This warrant expires on November 29, 2021. The fair value of the warrant amounted to $42,427 and was capitalized as deferred financing costs, of which $9,791 and $29,372 was expensed during the three and nine-month periods ended September 30, 2017, respectively, and $0 was expensed during 2018.

On August 14, 2017, we entered into a consent to waiver of the Agility Loan, to permit the issuance of the 2017 Promissory Notes.

On November 8, 2017, we entered into the Third Amendment whereby Agility Capital agreed to loan an additional $300,000 to us, such that the aggregate principal amount owing to Agility Capital as of November 9, 2017 was $625,000. The Third Amendment extended the maturity date of the Agility Loan from December 31, 2017 to December 31, 2018. A loan modification fee of $125,000 was deducted from the Additional Loan amount. This arrangement was treated as a substantial modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”). Because the net present value of the modified notes was greater than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt extinguishment and reissuance of a new debt instrument, with the fair value of $606,034 and therefore recorded $106,034 as a loss on debt extinguishment. The carrying value of the $625,000 did not change as a result of the extinguishment since the discounts recognized at inception of these new notes were fully amortized at the time of the issuance.

On January 26, 2018, we repaid the Agility Loan by paying Agility Capital approximately $581,000 which terminated the loan agreement between us and Agility Capital and released Agility Capital’s security interest in our assets. We owed $0 and $600,000 under the Agility Loan at September 30, 2018 and December 31, 2017, respectively.

Credit Facility - SaaS Capital Loan

On May 5, 2016, we entered into the SaaS Capital Loan, with SaaS Capital Funding II, LLC to borrow up to a maximum of $8,000,000. Initial amounts borrowed will accrue interest at the rate of 10.25% per annum with future amounts borrowed bearing interest at the greater of 10.25% or 9.21% plus the three-year treasury rate at the time of advance. Accrued interest on amounts borrowed is payable monthly for the first six months and thereafter 36 equal monthly payments of principal and interest is payable. Prepayments will be subject to a 10%, 6% or 3% of principal premium if prepaid prior to 12 months, between 12 and 24 months, or between 24 months and maturity, respectively. Advances may be requested until May 5, 2018. The initial minimum advance amount of $5,000,000, on May 5, 2016, was used to repay the outstanding line of credit balance of $4,572,223. A facility fee of $80,000 was paid by us in connection with the initial advance and an additional $80,000 was paid in May 2017. Additionally, we incurred initial financing costs of $160,000 which was capitalized as deferred financing costs, of which $13,333 and $40,000 was expensed during the three and nine-month periods ended September 30, 2018 and 2017, respectively.

The SaaS Capital Loan contains customary covenants including, but not limited to, covenants to achieve specified Adjusted EBITDA levels and revenue renewal levels, limiting capital expenditures and restricting our ability to pay dividends, purchase and sell assets outside the ordinary course and incur additional indebtedness. As of September 30, 2018, we were in compliance with such covenants. The occurrence of a material adverse change will be an event of default under the SaaS Capital Loan, in addition to other customary events of default. We granted SaaS Capital

Funding II, LLC a security interest in all of our personal property and intellectual property through the SaaS Capital Loan and the Patent, Trademark and Copyright Security Agreement between us and SaaS Capital Funding II, LLC.

On May 5, 2016, in connection with the SaaS Capital Loan, we issued to SaaS Capital Partners II, LP, an affiliate of SaaS Capital Funding II, LLC, a warrant to purchase up to 1,333,333 shares of our common stock at an exercise price of $0.45 per share subject to certain adjustments for dividends, splits or reclassifications. The Warrant is exercisable until the earlier of May 5, 2026, or the date that is 5 years from the date our equity securities are first listed for trading on NASDAQ. We paid approximately $169,000 in financing costs through December 31, 2016. The fair value of the warrant amounted to $383,128 and was capitalized as deferred financing costs, of which $31,927 and $95,781 was expensed during the three and nine-month periods ended September 30, 2018 and 2017, respectively.

On November 29, 2016, we entered into an amendment of our SaaS Capital Loan to receive consent from SaaS Capital to enter into the Settlement Agreement. The amendment required a loan modification fee of $120,000, payable at $10,000 a month for one year, expensed in the statement of operations. In connection with this amendment, we agreed to issue SaaS Capital a warrant to purchase up to 200,000 shares of our Common Stock at an exercise price of $0.36 per share. This warrant expires on November 29, 2026. The fair value of the warrant amounted to $60,185 and was fully expensed at December 31, 2016.

On May 10, 2017, we entered into a second amendment of the SaaS Capital Loan which adjusts the Minimum Adjusted EBITDA covenant in Schedule 6.17 of the SaaS Capital Loan from $0 to ($150,000) until August 31, 2017 to give us added flexibility in completing our hosting migration to a new platform and to allow for potentially augmented marketing and sales efforts.

On June 16, 2017, we entered into a third amendment of the SaaS Capital Loan to provide that any advance made within 6 months of the final advance date will be for a 36 month period with interest only payments due from the date of advance until the final advance date.

On August 14, 2017, we entered into a fourth amendment of the SaaS Capital Loan to permit the issuance of the 2017 Promissory Notes.

On November 8, 2017, we entered into the Fifth Amendment which adjusted the Minimum Adjusted EBITDA covenant of the SaaS Capital Loan from $0 to ($170,000) until October 31, 2017, to ($150,000) from November 1, 2017 to December 31, 2017, to ($100,000) from January 1, 2018 to May 31, 2018, to ($50,000) from June 1, 2018 to August 31, 2018, and to $0 thereafter. The Fifth Amendment added a new minimum liquidity covenant for a cash balance of $600,000 effective January 31, 2018. The Fifth Amendment also memorialized SaaS Capital's waiver of the Minimum Adjusted EBITDA covenant for September 2017. In connection with the Fifth Amendment, the Company agreed to pay to SaaS Capital a fee of $375,000 upon the payment in full of all outstanding advances.

On January 25, 2018, we entered into the Sixth Amendment to permit the Company to enter into the Beedie Credit Agreement, further described below, and to permit the repayment of Agility Capital and of the 2017 Promissory Notes. The Sixth Amendment also amended our adjusted EBITDA covenant and added covenants requiring a minimum gross margin and specified debt to monthly recurring revenue ratios. This arrangement was treated as a normal modification of existing debt pursuant to the guidance of ASC 470-50 "Debt – Modifications and Extinguishments" ("ASC 470-50"). Because the net present value of the modified notes was lesser than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt modification. In connection with the Sixth Amendment, we agreed to issue SaaS Capital a warrant to purchase up to 200,000 shares of our Common Stock at an exercise price of $0.35 per share, subject to certain adjustments for dividends, splits or reclassifications. The fair value of the warrant amounted to $56,834 and was capitalized as deferred financing costs, of which $4,736 and $12,629 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On May 31, 2018, we entered into the Seventh Amendment to permit the issuance of the 2018 Promissory Notes to amend our adjusted EBITDA, revenue renewal and total debt to monthly recurring revenue covenants, to increase the success fee payable upon repayment of the facility by $120,000 to $495,000, and to fix prepayment penalties until October 31, 2018.

On June 13, 2018, we entered into the Eighth Amendment to issue additional 2018 Promissory Notes.

On August 31, 2018, we entered into the Ninth Amendment to permit the issuance of the August 2018 Promissory Notes to amend our minimum adjusted EBITDA, revenue renewal, total debt to monthly recurring revenue and secured debt to monthly recurring revenue covenants, to increase the success fee payable upon repayment of the facility to $555,000 and to provide for twice monthly reporting of our projected cash flows..

During the nine-month period ended September 30, 2018, we borrowed $350,000 from the SaaS Capital Loan, and made principal payments of $2,402,653.

We owed $5,651,731 and $7,704,384 under the SaaS Capital Loan at September 30, 2018 and December 31, 2017, respectively.

2017 Promissory Notes

On August 14, 2017, we borrowed an aggregate of $1,000,000 from seven lenders and issued promissory notes for the repayment of the amounts borrowed. The 2017 Lenders are all accredited investors, certain of the 2017 Lenders are shareholders of ours, one of the 2017 Lenders is an affiliate of our director, Greg Akselrud, and two of the 2017 Lenders are each affiliated with a partner of Mr. Akselrud's in the law firm of Stubbs Alderton and Markiles, LLP. The 2017 Promissory Notes are unsecured, have a maturity date of August 14, 2019 and all principal is due upon maturity. Amounts borrowed accrue interest at 12% per annum and accrued interest is payable monthly. We also issued to the 2017 Lenders three-year warrants to purchase an aggregate of 1,000,000 shares of our Common Stock at an exercise price of $0.35 per share. The fair value of the warrant amounted to $104,676 and was capitalized as deferred financing costs, of which $0 and $82,868 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $8,723 and $8,723 was expensed during the three and nine-month periods ended September 30, 2017.

On January 26, 2018, we paid approximately $1,074,000 to repay the 2017 Promissory Notes which includes approximately $65,000 in additional interest expenses due to the repayment date which was prior to the maturity date. We owed $0 and $1,000,000 under the 2017 Promissory Notes at September 30, 2018 and December 31, 2017 respectively.

Beedie Credit Agreement

On January 25, 2018, we entered into a non-revolving term credit agreement with Beedie to borrow up to a maximum of $7,000,000. Outstanding principal will accrue interest at the rate of 12% per annum increasing to 14% per annum if our gross margins fall below amounts specified in the Beedie Credit Agreement. Accrued interest on outstanding principal is payable monthly in arrears. We paid Beedie a commitment fee of $175,000 and will pay to Beedie a monthly standby fee of 0.325% on the unadvanced and available amount. Advances may be requested until July 25, 2020 and outstanding principal must be paid in full on January 25, 2021. Prepayment, which if at our option must be made in full and is otherwise required following certain asset dispositions, will be subject to a fee of 24 months accrued interest less all interest previously paid by the Company on the outstanding principal amount if paid prior to January 25, 2020. The initial minimum advance amount of $4,500,000 was advanced on January 26, 2018. Approximately $581,000 of the initial advance was used to repay Agility Capital to terminate the loan agreement between us and Agility dated March 11, 2016, as amended, and to release Agility Capital's security interest in our assets. Approximately $1,074,000 of the initial advance was used to repay the 2017 Promissory Notes. The $175,000 commitment fee was capitalized as deferred financing costs, of which $14,583 and $38,888 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

27

The Beedie Credit Agreement contains customary covenants including, but not limited to, covenants to achieve specified adjusted EBITDA levels, to maintain minimum revenue renewal and liquidity levels, to maintain minimum gross margins, to maintain specified debt to monthly recurring revenue ratios, that limit capital expenditures and restrict our ability to pay dividends, purchase and sell assets outside the ordinary course, and that limit our ability to incur additional indebtedness. The occurrence of a material adverse change will be an event of default under the Beedie Credit Agreement, in addition to other customary events of default. Default interest will be charged at 18% per annum. We granted Beedie a security interest, subordinated to the security interest of SaaS Capital, in all of our assets through a pledge and security agreement, patent security agreement and trademark security agreement, each between us and Beedie. Beedie is entitled to board of director observation rights during the term of the Beedie Credit Agreement.

In connection with the Beedie Credit Agreement, we issued to Beedie a warrant to purchase up to 4,500,000 shares of our common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 26, 2019. Up to 2,500,000 additional shares of common stock under the Beedie Warrant will be exercisable on a pro rata basis to additional amounts borrowed if and when advanced under the Beedie Credit Agreement. We adopted ASU 2017-11 which revises ASC 815-10-15-74 to allow instruments with a down round features to qualify for equity classification. Under the new guidance, the issuer would recognize the value of the feature only when it is activated and there is an actual reduction of the strike price or conversion feature. The value of the adjustment is then to be recorded as deemed dividend and a reduction of income available to common stockholders. The fair value of the warrant amounted to $1,099,861 and was capitalized as deferred financing costs, of which $91,655 and $244,413 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On May 31, 2018, we entered into the First Beedie Amendment to permit the issuance of the 2018 Promissory Notes, to amend our adjusted EBITDA, revenue renewal and total debt to monthly recurring revenue covenants, and to add a secured debt to monthly recurring revenue covenant. In addition, we issued to Beedie a warrant to purchase up to 500,000 shares of our common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 25, 2019. This arrangement was treated as a normal modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (ASC 470-50). Because the net present value of the modified notes was lesser than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt modification. The fair value of the warrant amounted to $120,330 and was capitalized as deferred financing costs, of which $10,027 and $13,370 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On June 13, 2018, we entered into the Second Beedie Amendment to issue additional 2018 Promissory Notes. In addition, we issued to Beedie a warrant to purchase up to 100,000 shares of our common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 25, 2019. This arrangement was treated as a normal modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (ASC 470-50). Because the net present value of the modified notes was lesser than 10% of the present value of the remaining cash flows under the old debt, the transaction was treated as a debt modification. The fair value of the warrant amounted to $24,053 and was capitalized as deferred financing costs, of which $2,004 and $2,672 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

On August 31, 2018, we entered into the Third Beedie Amendment to borrow the second tranche of the term loan facility in the amount of $1,500,000, to permit the issuance of the August 2018 Promissory Notes, to amend the commitment fee, to amend our minimum adjusted EBITDA, revenue renewal, total debt to monthly recurring revenue and secured debt to monthly recurring revenue covenants and to provide for twice monthly reporting of our projected cash flows. In connection with the Third Beedie Amendment, we issued to Beedie a warrant to purchase up to 1,500,000 shares of our common stock and a warrant to purchase up to an additional 835,000 shares of our common stock at an exercise price of $0.35 per share subject to certain adjustments for dividends, splits or reclassifications, and a weighted average adjustment for certain issuances of common stock below the exercise price prior to January 25, 2019. The fair value of these warrants amounted to $412,484 and was capitalized as deferred financing costs, of which $11,458 and $11,458 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

2018 Promissory Notes

On May 31, 2018, and June 15, 2018, we borrowed an aggregate of $1,500,000 and $500,000, respectively, from the 2018 Lenders, and issued the 2018 Promissory Notes for the repayment of the amounts borrowed. The 2018 Lenders are all accredited investors, one of the 2018 Lenders is an affiliate of our director, Greg Akselrud, one of the 2018 Lenders is an affiliate of our Chief Financial Officer, Anthony Mazzarella, two of the 2018 Lenders are related to our Chairman and Chief Executive Officer, Brian Ross, and two of the 2018 Lenders are employees of ours. The 2018 Promissory Notes are unsecured, have a maturity date of May 30, 2021 and all principal is due upon maturity. Amounts borrowed accrue interest at 12% per annum and accrued interest is payable monthly. We also issued to the 2018 Lenders six-year warrants to purchase an aggregate of 3,000,000 shares of our Common Stock at an exercise price of $0.35 per share. The fair value of the warrants amounted to $737,218 and was capitalized as deferred financing costs, of which $61,435 and $81,913 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

August 2018 Promissory Notes

On August 31, 2018, we borrowed an aggregate of $1,500,000, from the August 2018 Lenders, and issued promissory notes for the repayment of the amounts borrowed. The August 2018 Lenders are all accredited investors. The August 2018 Promissory Notes are unsecured, have a maturity date of August 30, 2021 and all principal is due upon maturity. Amounts borrowed accrue interest at 12% per annum and accrued interest is payable monthly. We also issued to the Lenders six-year warrants to purchase an aggregate of 1,500,000 shares of our common stock exercisable for cash at an exercise price of $0.35 per share. The fair value of the warrants amounted to $276,798 and was capitalized as deferred financing costs, of which $7,689 and $7,689 was expensed during the three and nine-month periods ended September 30, 2018, respectively, and $0 during 2017.

28

Changes in Cash Flows

	Nine-month periods ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(4,783,640)	$(1,367,678)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	461,893	612,639
Amortization of debt discount and deferred financing cost	636,125	180,204
Provision for bad debt	(202,221)	(48,586)
Fair value of options and warrants	342,698	633,997
Loss on sale of fixed assets	997	902
Changes in operating assets and liabilities:		
Accounts receivable	764,381	(196,315)
Prepaid expenses and other assets	147,888	(129,077)
Accounts payable and accrued expenses	(415,072)	(641,049)
Deferred revenues	264,065	18,213
Other assets	13,346	(20,016)
Net cash used in operating activities	(2,769,540)	(956,766)
Cash flows from investing activities:		
Capitalized software for internal use	(1,125,000)	(1,347,075)
Capital expenditures	(31,579)	(44,125)
Proceeds from sale of assets	750	795
Net cash used in investing activities	(1,155,829)	(1,390,405)
Cash flows from financing activities:		
Principal repayments of credit facility and loan	(2,402,652)	(1,653,282)
Proceeds from credit facility	5,489,850	1,923,000
Proceeds from promissory notes	3,500,000	1,000,000
Repayments of promissory notes	(1,000,000)	-
Net cash provided by financing activities	5,587,198	1,269,718
Effect of exchange rate changes on cash	(20,683)	32,098
Net increase (decrease) in cash	1,641,146	(1,045,355)
Cash, beginning of period	216,883	1,730,127
Cash, end of period	$1,858,029	$684,772

Changes in Cash Flows During the Nine Months ended September 30, 2018

As of September 30, 2018, we had cash of approximately $1,860,000.

Net cash used in operating activities was approximately $2,770,000 during the nine-month period ended September 30, 2018 compared to net cash used in operations of approximately $957,000 during the same period in 2017. The change in operating cash flow was primarily due to a decrease in accounts payable and accrued expenses.

Net cash used in investing activities was approximately $1,155,000 during the nine-month period ended September 30, 2018 compared to $1,390,000 for the same period in 2017. The decrease in capitalization of development costs for internal-use software of approximately $220,000 and a decrease in capital expenditures of approximately $30,000 accounted for the decrease in cash used in investing activities.

Net cash provided by financing activities was approximately $5,590,000 for the nine-month period ended September 30, 2018 compared to $1,270,000 for the same period in 2017. The increase in cash provided by financing activities was due to approximately $5,600,000 in higher proceeds from our credit facility and promissory notes during the nine-month period ended September 30, 2018 when compared to the same period in 2017, offset with higher credit facility principal payments of approximately $1,300,000.

Exercise of warrants

There were no proceeds generated from the exercise of warrants during the nine-month period ended September 30, 2018.

Other outstanding obligations at September 30, 2018

Warrants

As of September 30, 2018, 25,045,517 shares of our Common Stock are issuable pursuant to the exercise of warrants.

Options

As of September 30, 2018, 7,237,500 shares of our Common Stock are issuable pursuant to the exercise of options.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, who is our principal executive officer, and our Chief Financial Officer, who is our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the

Exchange Act. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2018, our disclosure controls and procedures are effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2018, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors.

Except as set forth below, there have been no material changes to the Risk Factors set forth in our annual report on Form 10-K filed with the SEC on March 27, 2018.

Our pursuit of strategic transactions could disrupt our business, cause dilution to our stockholders and otherwise harm our business.

We may pursue strategic transactions such as acquisitions and dispositions as well as pursue strategic alliances, joint ventures, technology licenses or investments in complementary businesses. We have limited experience with respect to these types of strategic transactions. Any of these transactions could be material to our financial condition and operating results and expose us to many risks, including:

- disruption in our relationships with customers, distributors or suppliers as a result of such a transaction;
- unanticipated liabilities related to acquired companies;

- difficulties integrating acquired personnel, technologies and operations into our existing business;

- diversion of management time and focus from operating our business to acquisition integration or disposal challenges;
- increases in our expenses and reductions in our cash available for operations and other uses; and
- possible write-offs or impairment charges relating to acquired businesses.

We may not be successful in pursing strategic transactions. The anticipated benefit of any strategic transaction may not materialize. Future strategic transactions such as acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses or write-offs of goodwill, any of which could harm our financial condition. We cannot predict the number, timing or size of future strategic transactions, or the effect that any such transactions might have on our operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On July 1, 2018, we issued 120,000 restricted shares of our Common Stock, vesting in 4 equal quarterly increments commencing on July 1, 2018, to each of our non-employee directors as partial annual compensation for services as a director. These issuances are exempt from registration pursuant to Section 4(a)(2) under the Securities Act of 1933, as amended, or the Securities Act, as not involving any public offering.

On August 13, 2018, we issued warrants to purchase up to an aggregate of 1,000,000 shares of our Common Stock to two employees. The warrants are exercisable in cash or on a cashless basis at an exercise price of $0.50 per share, vest in twelve equal quarterly amounts, and expire on August 13, 2023. These issuances are exempt from registration pursuant to Section 4(a)(2) under the Securities Act as not involving any public offering.

Item 6. Exhibits

4.1 Form of Warrant issued on August 31, 2018 (incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2018).

4.2 Form of Warrant issued on August 31, 2018 (incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2018).

10.1 Form of Restricted Stock Agreement entered into on July 1, 2018.*

10.2	Form of Promissory Note issued on August 31, 2018.*
10.3	Ninth Amendment to Loan and Security Agreement between Accelerize Inc. and SaaS Capital Funding II, LLC, dated as of August 31, 2018.*
10.4	Third Amending Agreement between Accelerize Inc. and Beedie Investments Limited, dated as of August 31, 2018.*
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) and15d-14(a).*
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a).*
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. 1350.**
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350.**
101.	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Comprehensive Loss, (iv) the Statements of Cash Flows, and (v) related notes to these financial statements.*

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

ACCELERIZE INC.

Dated: November 14, 2018	By:	/s/ Brian Ross Brian Ross President and Chief Executive Officer (Principal Executive Officer)
Dated: November 14, 2018	By:	/s/ Anthony Mazzarella Anthony Mazzarella Chief Financial Officer (Principal Financial Officer)