Mobiquity Technologies, Inc.
Form 10-Q/A
November 28, 2014

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

COMMISSION FILE NUMBER: 000-51160

MOBIQUITY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

NEW YORK	**11-3427886**
(State of jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

600 OLD COUNTRY ROAD, SUITE 541

GARDEN CITY, NY 11530

(Address of principal executive offices)

(516) 256-7766

(Registrant's telephone number)

(Former name, address and fiscal year, if changed since last report)

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

Yes x No o

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such file).

Yes x No o

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

Large Accelerated Filer o	Accelerated Filer o
Accelerated Filer o	Smaller Reporting Company x

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

Yes o No x

As of November 7, 2014, the registrant had a total of 64,032,118 shares of Common Stock outstanding.

MOBIQUITY TECHNOLOGIES, INC.

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

MOBIQUITY TECHNOLOGIES, INC.

Condensed Consolidated Balance Sheets

	September 30, 2014 Unaudited	December 31, 2013 Audited
Assets		
Current Assets:		
Cash and cash equivalents	$1,460,473	$1,740,989
Accounts receivable, net of allowance for doubtful accounts of $30,000 and $30,000 as of 2014 and 2013, respectively	361,939	433,856
Inventory	202,737	109,073
Prepaid expenses and other current assets	126,838	141,921
Total Current Assets	2,151,987	2,425,839
Property and equipment, net of accumulated depreciation of $772,977 and $597,396 as of September 30, 2014 and December 31, respectively	315,893	466,772
Intangible assets, net of accumulated amortization of $221,696 and $153,416 as of 2014 and 2013, respectively	233,504	301,784
Other Assets	34,030	34,109
Total Assets	$2,735,414	$3,228,504
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$539,237	$485,401
Accrued expenses	99,666	177,943
Convertible promissory note	322,000	322,000
Note Payable-Investors	253,083	–
Total Current Liabilities	1,213,986	985,344
Commitments and Contingencies	–	–
Stockholders' Equity:		
Preferred Stock, $.0001 par value; 5,000,000 shares authorized, and December 31, 2013 respectively 0 and 0 shares issued and outstanding at September 30, 2014	–	–

Common stock, $.0001 par value; 200,000,000 and 100,000,000 shares authorized; 63,805,451 and 52,402,247 shares issued and outstanding at 2014 and 2013, respectively	6,381	5,240
Additional paid-in capital	27,400,241	21,948,920
Stock subscription receivable	–	(175,000)
Accumulated other comprehensive income (loss)	(459)	1,268
Accumulated deficit	(25,853,234)	(19,505,767)
	1,552,929	2,274,661
Less: Treasury Stock, at cost, 23,334 shares	(31,501)	(31,501)
Total Stockholders' Equity	1,521,428	2,243,160
Total Liabilities and Stockholders' Equity	$2,735,414	$3,228,504

See notes to condensed consolidated financial statements.

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MOBIQUITY TECHNOLOGIES, INC.

Condensed Consolidated Balance Sheets

	Three Months Ended September 30, Unaudited		Nine Months Ended September 30, Unaudited	
	2014	2013	2014	2013
Revenues, net	$714,044	$668,719	$2,273,395	$2,263,812
Cost of Revenues	610,119	441,061	1,859,497	1,652,449
Gross Profit	103,925	227,658	413,898	611,363
Operating Expenses:				
Selling, general and administrative expenses	2,144,255	1,396,637	6,697,392	4,658,596
Total Operating Expenses	2,144,255	1,396,637	6,697,392	4,658,596
Loss from Operations	(2,040,330)	(1,168,979)	(6,283,494)	(4,047,233)
Other Income (Expense):				
Interest expense	(40,621)	(24,602)	(64,111)	(85,586)
Interest income	45	53	138	221
Total Other Income (Expense)	(40,576)	(24,549)	(63,973)	(85,365)
Net Loss	$(2,080,906)	$(1,193,528)	(6,347,467)	$(4,132,598)
Other Comprehensive Income (Loss)	(569)	–	(1,727)	–
Net Comprehensive Loss	$(2,081,475)	$(1,193,528)	$(6,349,194)	$(4,132,598)
Net Loss Per Common Share:				
Basic	$(0.03)	$(0.03)	$(0.11)	$(0.10)
Weighted Average Common Shares Outstanding:				
Basic	62,383,258	45,490,256	58,354,759	40,177,948

See notes to condensed consolidated financial statements.

MOBIQUITY TECHNOLOGIES, INC

Statement of Stockholders' Equity
Year Ended December 31, 2013 and Nine Months Ended September 30, 2014

	Total Stockholders' Equity	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Stock Subscription	Accumulated Other Comprehensive Income (Loss)	(Deficit)
Balance, at December 31, 2012	$1,038,984	220,000	$22	30,252,938	$3,025	$14,485,740			$(13,418,302)
Stock Purchase	5,562,816			19,125,006	1,913	5,735,903	(175,000)		
Offering costs	(182,184)					(182,184)			
Stock Grant	1,048,091			2,402,969	240	1,047,851			
Stock Purchase Preferred	–			–	–	–			
Conversion of Preferred Stock	–	(220,000)	(22)	528,000	53	(31)			
Option Grant	716,983					716,983			
Conversion of debt	28,000			93,334	9	27,991			
Beneficial Conversion Feature	116,667					116,667			
Closing Costs on equity issuance	–					–			
Net Loss	(6,086,197)							$1,268	$(6,087,465)
Balance, at December 31, 2013	$2,243,160	$–	$–	52,402,247	$5,240	$21,948,920	$(175,000)	$1,268	$(19,505,767)
Stock Purchase	3,735,300			9,884,635	989	3,559,311	175,000		
Offering costs	(254,000)					(254,000)			
Stock Grant	204,574			1,319,000	132	204,442			
Option Grant	1,453,811					1,453,811			
Warrant Exercise				49,569	5	(5)			
Stock Compensation	166,174			150,000	15	166,159			
Warrant Grant	321,603					321,603			
Net Loss	(6,349,194)							(1,727)	(6,347,467)
Balance, at September 30,	$1,521,428	–	$–	63,805,451	$6,381	$27,400,241	$–	$(459)	$(25,853,234)

2014

See notes to condensed consolidated financial statements.

	MOBIQUITY TECHNOLOGIES, INC.	
Condensed Consolidated Statements of Cash Flows		
Nine Months Ended September 30,	2014	2013
	Unaudited	Unaudited
Cash Flows from Operating Activities:		
Net loss	$(6,349,194)	$(4,132,598)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	243,861	199,090
Stock-based compensation	2,146,162	1,383,638
Amortization of deferred financing costs	–	42,238
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	71,917	144,656
Inventory	(93,664)	–
Prepaid expenses and other assets	15,162	(347,152)
Increase (decrease) in operating liabilities:		
Accounts payable	53,836	(110,833)
Accrued expenses	(78,277)	–
Total adjustments	2,358,997	1,311,637
Net Cash Used in Operating Activities	(3,990,197)	(2,820,961)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(24,702)	(24,358)
Acquisition of intellectual property	–	–
Net Cash Used in Investing Activities	(24,702)	(24,358)
Cash Flows from Financing Activities:		
Proceeds from Loan	253,083	–
Proceeds from issuance of stock	3,481,300	4,006,500
Net Cash Provided by Financing Activities	3,734,383	4,006,500
Net Increase (Decrease) in Cash and Cash Equivalents	(280,516)	1,161,181
Cash and Cash Equivalents, beginning of period	1,740,989	362,598
Cash and Cash Equivalents, end of period	$1,460,473	$1,523,779
Supplemental Disclosure Information:		
Cash paid for interest	$64,112	$43,348
Cash paid for taxes	$–	$–

See notes to condensed consolidated financial statements.

MOBIQUITY TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(UNAUDITED)

NOTE 1: NATURE OF OPERATIONS

Mobiquity Technologies, Inc., a New York corporation (the "Company"), operates a national location-based mobile advertising network comprised of a consumer-focused proximity network. The Company's integrated suite of proprietary location based mobile advertising technologies allows clients to execute more personalized and contextually relevant experiences, driving brand awareness and incremental revenue. The Company has currently installed its location-based mobile advertising solutions in approximately 180 locations as of October 2014 and is currently expanding to 240 retail destinations across the U.S. to create "smart malls" using Bluetooth-enabled iBeacon compatible technology. The Company plans to expand outside the malls with additional synergistic venues that will allow for cross marketing opportunities in such venues as stadiums, arenas, additional college campuses, airports and retail chains.

The Company operates through its wholly-owned subsidiaries, Ace Marketing & Promotions, Inc. ("Ace Marketing") and Mobiquity Networks, Inc. ("Mobiquity Networks"). Mobiquity Networks operates an office in Spain, which operates under a wholly-owned Spanish subsidiary. Ace Marketing is the Company's legacy marketing and promotions business which provides integrated marketing services to commercial customers. While Ace Marketing currently represents substantially all of the Company's revenue, the Company anticipates that activity from Ace Marketing will represent a diminishing portion of corporate revenue as the Company is presently focused principally on developing and executing on opportunities in its Mobiquity Networks business.

As used herein, the term "Common Stock" means the Company's common stock, par value $0.0001 per share.

NOTE 2: SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of the Company (formerly known as Ace Marketing & Promotions, Inc.), and its wholly owned subsidiaries, Mobiquity Networks, Ace Marketing and Mobiquity Wireless S.L.U. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements and footnotes thereto are unaudited.

The Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, the Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2014 and 2013 and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 have been prepared by the Company without audit, and in accordance with the requirements of Form 10-Q/A and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of Company management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly in all material respects our financial position as of September 30, 2014, results of operations for the three months and nine months ended September 30, 2014 and 2013 and cash flows for the nine months ended September 30, 2014 and 2013. All such adjustments are of a normal recurring nature. The results of operations and cash flows for the nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through the filing of this Form 10-Q/A with the SEC, and determined there have not been any events that have occurred that would require adjustments to our unaudited Condensed Financial Statements.

The information contained in this report on Form 10-Q/A should be read in conjunction with our Form 10-K for the Company's fiscal year ended December 31, 2013.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted FASB ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”), for assets and liabilities measured at fair value on a recurring basis. 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, and establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company’s financial position or operating results, but did expand certain disclosures.

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.

Cash and cash equivalents include money market securities that are considered to be highly liquid and easily tradable as of September 30, 2014 and 2013. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

The carrying amounts of financial instruments, including accounts receivable, accounts payable and accrued liabilities, and promissory note, approximated fair value as of September 30, 2014 and 2013, because of the relatively short-term maturity of these instruments and their market interest rates.

CASH AND CASH EQUIVALENTS

The majority of cash is maintained with a major financial institution in the United States. Deposits with this bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed on demand and, therefore, bear minimal risk. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

REVENUE RECOGNITION - Ace Marketing

Revenue is recognized when title and risk of loss transfers to the customer and the earnings process is complete. In general, title passes to our customers upon the customer's receipt of the merchandise. Revenue is recognized on a gross basis since the Company has the risks and rewards of ownership, latitude in selection of vendors and pricing, and bears all credit risk. Advance payments made by customers are included in customer deposits. The Company records all shipping and handling fees billed to customers as revenues and related costs as cost of goods sold, when incurred. Additional source of revenue, derived from emails/texts directly to consumers are recognized under contractual arrangements. Revenue from this advertising method is recognized at the time of service provided.

Revenue Recognition – Mobiquity Networks

Mobiquity has three avenues of income with our beacon platform, Bluetooth Push and Wi-Fi. Revenue is realized with the signing of the contract. The customer signs for a specific campaign costing a specific amount billed before the campaign is put into action. Revenue is recognized the same way for the three avenues of income.

The first option to earn revenue with the beacon platform is for customers to do campaigns, advertising on our platform, either directly through their app or through 3rd party apps. The second option to earn revenue is through a share on campaigns, a retailer would install our beacon SDK on their app, to which they would sell advertising on. Revenue they earn would be shared with Mobiquity. The third option would be though selling data.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - Management must make estimates of the uncollectability of accounts receivable. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

INVENTORY - Inventory is recorded at cost (First In, First Out) and is comprised of finished goods. The Company maintains an inventory on hand for its largest customer’s frequent order items. All items held are branded for the customer, therefore are not available for public distribution. The Company has an agreement with this customer, for cost recovery, if vendor relationship is terminated. There has been no reserves placed on inventory, based on this arrangement.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are being amortized using the straight-line method over the estimated useful lives of the related assets or the remaining term of the lease. The costs of additions and improvements, which substantially extend the useful life of a particular asset, are capitalized. Repair and maintenance costs are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and the gain or loss on disposition is reflected in operating income.

LONG LIVED ASSETS - Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. We did not recognize any impairment losses for any periods presented.

WEBSITE TECHNOLOGY - Website technology developed during the year was capitalized for the period of development and testing. Expenditures during the planning stage and after implementation have been expensed in accordance with ASC985.

ADVERTISING COSTS - Advertising costs are expensed as incurred. For the three months ended September 30, 2014 and 2013 there were advertising costs of zero and $500, respectively. In the nine months ended September 30, 2014 and 2013, there were advertising costs of $288 and $3,840, respectively.

ACCOUNTING FOR STOCK BASED COMPENSATION - Stock based compensation cost is measured at the grant date fair value of the award and is recognized as expense over the requisite service period. The Company uses the Black-Sholes option-pricing model to determine fair value of the awards, which involves certain subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected term”), the estimated volatility of the Common Stock price over the expected term (“volatility”) and the number of options for which vesting requirements will not be completed (“forfeitures”). Changes in the subjective assumptions can materially affect estimates of fair value stock-based compensation, and the related amount recognized on the consolidated statements of operations.

BENEFICIAL CONVERSIONS - Debt instruments that contain a beneficial conversion feature are recorded as deemed interest to the holders of the convertible debt instruments. The beneficial conversion is calculated as the difference between the fair value of the underlying Common Stock less the proceeds that have been received for the debt instrument limited to the value received. The beneficial conversion amount is recorded as interest expense and an increase to additional paid-in-capital. The beneficial conversion has been fully accreted to the face value of the original loan and interest expense has been recognized.

FOREIGN CURRENCY TRANSLATIONS - The Company's functional and reporting currency is the U.S. dollar. We own a subsidiary in Europe. Our subsidiary's functional currency is the EURO. All transactions initiated in EUROs are translated into U.S. dollars in accordance with ASC 830-30, *"Translation of Financial Statements,"* as follows:

(i) Monetary assets and liabilities at the rate of exchange in effect at the balance sheet date.
(ii) Fixed assets and equity transactions at historical rates.
(iii) Revenue and expense items at the average rate of exchange prevailing during the period.

Adjustments arising from such translations are deferred until realization and are included as a separate component of stockholders' equity as a component of comprehensive income or loss. Therefore, translation adjustments are not included in determining net income (loss) but reported as other comprehensive income.

No significant realized exchange gains or losses were recorded since March 7, 2013 (date of acquisition of subsidiary) to September 30, 2014.

INCOME TAXES - Deferred income taxes are recognized for temporary differences between financial statement and income tax basis of assets and liabilities for which income tax or tax benefits are expected to be realized in future years. A valuation allowance is established to reduce deferred tax assets, if it is more likely than not, that all or some portion of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The revenue recognition standard affects all entities that have contracts with customers, except for certain items. The new revenue recognition standard eliminates the transaction and industry specific revenue recognition guidance under current GAAP and replaces it with a principle-based approach for determining revenue recognition. Public entities are required to adopt the revenue recognition standard for reporting periods beginning after December 15, 2016, and interim and annual reporting periods thereafter. Early adoption is not permitted for public entities. The Company has reviewed the applicable ASU and has not, at the current time, quantified the effects of this pronouncement, however management believes that there will be no material effect on the consolidated financial statements.

In September 2014, FASB issued Accounting Standards Update (ASU) No. 2014-12 *Compensation — Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a*

Performance Target Could Be Achieved after the Requisite Service Period. A performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition under Accounting Standards Codification (ASC) 718, *Compensation — Stock Compensation*. As a result, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost would be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance is effective for annual periods beginning after 15 December 2015 and interim periods within those annual periods. Early adoption is permitted. Management has reviewed the ASU and believes that they currently account for these awards in a manner consistent with the new guidance, therefore there is no anticipation of any effect to the consolidated financial statements.

We have reviewed the FASB issued Accounting Standards Update ("ASU") accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

NOTE 3: LOSS PER SHARE

Basic loss per common share is computed by dividing net loss by the weighted average number of shares of Common Stock outstanding during the period. Dilutive loss per share gives effect to stock options and warrants, which are considered to be dilutive Common Stock equivalents. Basic loss per common share was computed by dividing net loss by the weighted average number of shares of Common Stock outstanding. The number of common shares potentially issuable upon the exercise of certain options and warrants that were excluded from the diluted loss per common share calculation was approximately 37,304,000 and 23,179,000 because they are anti-dilutive as a result of a net loss for the three months ended September 30, 2014 and 2013, respectively.

NOTE 4: CONVERTIBLE PROMISSORY NOTE

In July 2014, the Company raised $250,000 in gross proceeds from the sale of convertible promissory notes in the principal amount of $250,000 with a maturity date of July 31, 2017. The noteholders also received Class CC Warrants to purchase 125,000 shares of common Stock, exercisable at $1.20 per share through July 31, 2017. The placement agent received $17,500 in cash, 25,000 shares of restricted Common Stock and five-year warrants to purchase 7,500 shares of Common Stock at an exercise price of $.60 per share. The notes bear interest at the rate of 6% per annum with semi-annual payments to be paid on January 31st and July 31st of each year with the first interest payment due on January 31, 2015. At the option of the noteholder, the principal and accrued interest thereon is convertible at the greater of $.50 per share or 85% of the average daily volume weighted average price of the Company's Common Stock on the OTCQB during the 20 trading days immediately preceding the applicable interest date or conversion date. In the event the Company's Common Stock has a closing sales price of at least $1.00 per share on the OTCQB for a period of at least 10 trading days with an average daily volume weighted average of at least 25,000 shares, then the Company's promissory notes shall automatically converted into shares of the Company's Common Stock at 85% of the average VWAP during the 20 trading days immediately preceding the conversion date.

On June 12, 2012, the Company closed on a security agreement (the "Security Agreement") with TCA Global Credit Master Fund, LP, a Cayman Islands limited partnership ("TCA") related to a $350,000 convertible promissory note issued by the Company in favor of TCA (the "Convertible Note") (see Note 13). The maturity date of the Convertible Note was December 2013, and the Convertible Note bears interest at a rate of twelve percent (12%) per annum. The Convertible Note was convertible into shares of Common Stock at a price equal to ninety-five percent (95%) of the average of the lowest daily volume weighted average price of the Common Stock during the five (5) trading days immediately prior to the date of conversion. The Convertible Note may be prepaid in whole or in part at the Company's option without penalty. The Security Agreement granted to TCA a continuing, first priority security interest in all of the Company's assets, wheresoever located and whether now existing or hereafter arising or acquired. The Company's wholly-owned subsidiary, Mobiquity Networks, Inc., also entered into a similar Security Agreement and Guaranty Agreement. On December 12, 2013, TCA sold its entire interest in the Company's $350,000 secured promissory note to Thomas Arnost, a director of the Company, at face value. Mr. Arnost entered into an amendment to the note to extend the maturity date of the note to June 12, 2014, subject to his right to declare the note due and payable at any time in his sole discretion. Also, the interest rate was raised from 12% per annum to 15% per annum with interest payable monthly and the conversion price of the shares issuable upon conversion of the note was fixed at $.30 per share. The due date of the note was further extended to December 12, 2014 and is convertible at the sole discretion of the noteholder. The noteholder immediately converted $28,000 into 93,334 shares of Common Stock in December 2013. The principal balance on the note is $322,000 as of September 30, 2014 and December 31, 2013.

The Company evaluated the terms of the new note in accordance with ASC Topic No. 815 - 40, *Derivatives and Hedging - Contracts in Entity's Own Stock*. The Company determined that the conversion feature did not meet the definition of a liability and therefore did not bifurcate the conversion feature and account for it as a separate derivative liability. The Company evaluated the conversion feature for a beneficial conversion feature. The effective conversion price was compared to the market price on the date of the note and was deemed to be less than the market value of underlying Common Stock at the inception of the note. Therefore, the Company recognized a beneficial conversion feature in the amount of $116,667. The beneficial conversion feature was recorded as an increase in additional paid-in capital and recognized interest expense in the year ended December 31, 2013.

NOTE 5: STOCK COMPENSATION

Compensation costs related to share-based payment transactions, including employee stock options, are recognized in the financial statements utilizing the straight line method for the cost of these awards. The Company's results for the three month periods ended September 30, 2014 and 2013 include employee share-based compensation expense totaling approximately $504,000 and $332,000, respectively. The Company's results for the nine month periods ended September 30, 2014 and 2013 include employee share-based compensation expense totaling approximately $2,146,200 and $1,383,600, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within selling, general and administrative expenses. No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements due to a history of operating losses. The following table summarizes stock-based compensation expense for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Employee stock-based compensation - option grants	$430,466	$51,928	$1,343,803	$175,248
Employee stock-based compensation - stock grants	–	–	–	–
Non-Employee stock-based compensation - option grants	73,502	55,055	110,008	284,655
Non-Employee stock-based compensation - stock grants	–	186,904	370,748	812,401
Non-Employee stock-based compensation-stock warrant		38,110	321,603	111,334
Total	$503,968	$331,997	$2,146,162	$1,383,638

NOTE 6: STOCK OPTION PLAN

During Fiscal 2005, the Company established, and the stockholders approved, an Employee Benefit and Consulting Services Compensation Plan (the "2005 Plan") for the granting of up to 2,000,000 non-statutory and incentive stock options and stock awards to directors, officers, consultants and key employees of the Company. On September 9, 2005, the Board of Directors amended the Plan to increase the number of stock options and awards to be granted under the Plan to 4,000,000. During Fiscal 2009, the Company established a plan of long-term stock-based compensation incentives for selected Eligible Participants of the Company covering 4,000,000 shares. This plan was adopted by the Board of Directors and approved by stockholders in October 2009 and shall be known as the 2009 Employee Benefit and Consulting Services Compensation Plan (the "2009 Plan"). In September 2013, the Company’s stockholders approved an increase in the number of shares covered by the 2009 Plan to 10,000,000. (The 2005 and 2009 Plans are collectively referred to as the “Plans” and the Company has a combined 14,000,000 shares available for issuance under the Plans.)

All stock options under the Plans are granted at or above the fair market value of the Common Stock at the grant date. Employee and non-employee stock options vest over varying periods and generally expire either 5 or 10 years from the grant date. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For option grants, the Company will take into consideration payments subject to the provisions of ASC 718 "Stock Compensation", previously Revised SFAS No. 123 "Share-Based Payment" ("SFAS 123 (R)"). The fair values of these restricted stock awards are equal to the market value of the Company's stock on the date of grant, after taking into certain discounts. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously, such assumptions were determined based on historical data.

The weighted average assumptions made in calculating the fair values of options granted during the three and nine months ended September 30, 2014 and 2013 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Expected volatility	78.68%	172.77%	46.67%	127.49%
Expected dividend yield		–		–
Risk-free interest rate	1.95%	.57%	2.43%	.78%
Expected term (in years)	6.25	5	8.34	5.57

	Share	Weighted Average	Weighted Average	Aggregate Intrinsic

		Exercise Price	Remaining Contractual Term	Value
Outstanding, January 1, 2014	7,045,000	.63	2.04	$ 314,750
Granted	6,785,000	.42	7.87	150,000
Exercised	–			
Cancelled & Expired	(100,000)	.90		
Outstanding, September 30, 2014	13,730,000	.52	5.83	$ 253,250
Options exercisable, September 30, 2014	12,063,332	.53	5.98	$ 253,250

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The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2014 and 2013 was $0.41 and $0.42, respectively.

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2014 is calculated as the difference between the exercise price of the underlying options and the market price of the Common Stock for the shares that had exercise prices, that were lower than the $0.35 closing price of the Common Stock on September 30, 2014.

As of September 30, 2014, the fair value of unamortized compensation cost related to unvested stock option awards was $492,363.

The weighted average assumptions made in calculating the fair value of warrants granted during the three and nine months ended September 30, 2014 and 2013 are as follows:

Three Months Ended September 30		**Nine Months Ended September 30**
2014	**2013**	