

COMMERCETEL CORP
Form 10-K
April 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission file number 000-53851

CommerceTel Corporation
(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

26-3439095
(I.R.S. Employer
Identification No.)

8929 Aero Drive, Suite E
San Diego, CA 92123
(Address of Principal Executive Offices & Zip Code)

(866) 622-4261
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(Name, Address and Telephone Number of Agent for Service)

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

Securities registered pursuant to section 12(g) of the Act:
Common Stock, \$.001 par value

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

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

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

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

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

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

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

The aggregate market value of voting stock held by non-affiliates of the registrant is calculated based upon the closing sale price of the common stock on March 23, 2011, as reported on the Over-the-Counter Bulletin Board, and such aggregate market value was approximately \$35,252,000.

As of March 23, 2011, the registrant had 17,700,000 shares of common stock issued and outstanding.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Form 10-K, contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. The forward-looking statements are contained principally in Item 1—“Business,” Item 1.A—“Risk Factors” and Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations” but appear throughout the Form 10-K. Examples of forward-looking statements include, but are not limited to our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “opportunity,” “plan,” “potential,” “predicts,” “seek,” “should,” “will,” or “would,” and similar variations or negatives of these words. These forward-looking statements are based on the expectations, estimates, projections, beliefs and assumptions of our management based on information currently available to management, all of which are subject to change. Such forward-looking statements are subject to risks, uncertainties and other factors that are difficult to predict and could cause our actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed under Item 1.A. “Risk Factors” in this Form 10-K. Furthermore, such forward-looking statements speak only as of the date of this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements to reflect events or circumstances after the date of such statements for any reason, except as otherwise required by law.

Part I

Item 1. Business.

General Information

CommerceTel Corporation (the “Company” or “we”) is a provider of technology that enables major brands and enterprises to engage consumers via their mobile phone. Interactive electronic communications with consumers is a complex process involving communication networks and software. We remove this complexity through our suite of services and technologies thereby enabling brands, marketers, and content owners to communicate with their customers and consumers in general. From Presidential elections to major broadcast events, we are pioneers in the deployment of the mobile channel as the ultimate direct connection to the consumer.

Mobile phone users represent a large and captive audience. While televisions, radios, and even PCs are often shared by multiple consumers, mobile phones are personal devices representing a unique and individual address to the end user. We believe that the future of digital media will be driven by mobile phones where a direct, personal conversation can be had with the world’s largest audience. The future of mobile includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life. Over four million consumers have been engaged via their mobile device thanks to our technology.

We believe that our mobile marketing and advertising campaign platform is among the most advanced in the industry as it allows real time interactive communications with consumers. We generate revenue from licensing our software to clients in our software as a service (SaaS) model, per-message and per minute transactional fees, and customized professional services.

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Our “C4” Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution enabling our clients to develop, execute, and manage a variety of engagements to a consumer’s mobile phone. Short Messaging Service (SMS), Multi-Media Messaging (MMS), and Interactive Voice Response (IVR) interactions can all be facilitated via a set of Graphical User Interfaces (GUIs). Reporting and analytics capabilities are also available to our users through the C4 solution.

Mobile devices are emerging as the principal interactive channel for brands to reach consumers since it is the only media platform that has access to the consumer virtually anytime and anywhere. Brands and advertising agencies are recognizing the unique benefits of the mobile channel and they are increasingly integrating mobile media within their overall advertising and marketing campaigns. Our objective is to become the industry leader in connecting brands and enterprises to consumers’ mobile phones.

Company Strategy

Our objective is to build an industry-leading mobile marketing company through a combination of organic and acquired growth. The key elements to our strategy are:

- Exploit the competitive advantages and operating leverage of our technology platform. The core of our business is our proprietary, enterprise-grade C4 technology platform. We believe that the C4 platform is more advanced than technologies offered by our competitors and provides us with a significant competitive advantage. The platform is also highly scalable and capable of supporting substantial growth of our business.
- Expand our sales and customer support infrastructure. We have historically focused our efforts on development of our technology and solutions. Going forward, we intend to increase significantly our investments in sales and customer support.
- Acquire complementary businesses and technologies. Our future growth will largely depend upon our ability to acquire and integrate complementary businesses. We have identified hundreds of companies operating in the mobile marketing industry. Most are privately owned and have relatively modest revenues and limited exit options. We believe that the combination of our award-winning technology platform and the “currency” of our publicly traded common stock will make us an attractive alternative for many of these companies. We target companies with the following characteristics: (1) an established revenue base, (2) strong pipeline and growth prospects, (3) break-even or positive cash flow, (4) opportunities for substantial expense reductions through integration into our platform, (5) strong sales teams, and (6) technology and services that further build out and differentiate our platform.
- Build our intellectual property portfolio. We currently have three patents pending and recently acquired an issued patent that we believe have significant potential application in the mobile marketing industry. We plan to continue our investment in building a strong intellectual property portfolio.

While these are the key elements of our current strategy, there can be no guarantees that our strategy will not change, or that we will succeed in achieving these goals.

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Company Background

CommerceTel Corporation, a Nevada corporation, formerly Ares Ventures Corporation, was an exploration stage company with no revenues and a limited operating history until November 2010.

Share Exchange

On November 2, 2010, we completed the acquisition of CommerceTel, Inc., in exchange for 10,000,000 shares of our common stock (the "Share Exchange"). Please refer to Note 1 in the accompanying consolidated financial statements. Our current operations are conducted entirely by CommerceTel, Inc.

In anticipation of the transaction, effective October 5, 2010, we changed our name from Ares Ventures Corporation to CommerceTel Corporation.

Bridge Note Financing

On November 2, 2010, we issued to a number of accredited investors a series of our 10% Senior Secured Convertible Bridge Note (the "Notes") in the aggregate principal amount of \$1,000,000 (the "Financing"). The Notes accrue interest at the rate of 10% per annum. The entire principal amount of the Notes plus all accrued and unpaid interest is due on the earlier of (i) the date we complete a financing transaction for the offer and sale of shares of our common stock (including securities convertible into or exercisable for our common stock), in an aggregate amount of no less than 125% of the principal amounts evidenced by the Notes (a "Qualifying Financing"), or (ii) November 3, 2011. On the maturity date of the Notes, in addition to the repayment of the principal amount and all accrued and unpaid interest, we will issue to each holder of the Notes, at each such holder's option, (i) three year warrants to purchase that number of shares of our common stock equal to the principal amount of (plus all accrued and unpaid interest on) the Notes held by the holder divided by the per share purchase price of the common stock offered and sold in the Qualifying Financing (the "Offering Price") which warrants shall be exercisable at the Offering Price, or (ii) that number of shares of common stock equal to the product arrived at by multiplying (x) the principal amount of (plus all accrued and unpaid interest on) the Notes held by the holder, divided by the Offering Price and (y) 0.33. Our obligations under the Notes are secured by all of our assets, including all shares of CommerceTel, Inc., our wholly owned subsidiary.

Txtstation Acquisition

On April 1, 2011, we acquired substantially all of the assets of the Txtstation interactive mobile marketing platform and services business from Adsparg Limited ("Adsparg"). The purchase price for the acquisition was 2,125,000 shares of our common stock and \$300,000 in cash. Of the cash portion, \$50,000 was paid at closing, with an additional \$25,000 payable on the 60th day following closing. The balance is payable in \$25,000 installments at the end of each of the next nine 30-day periods thereafter. We assumed none of Adsparg's liabilities in the transaction. For a period of one year following the closing of the transaction, half of the shares of common stock issued to Adsparg will be held in escrow as security for Adsparg's obligations under the agreement.

In connection with the transaction, we also issued 300,000 shares of our common stock to the controlling stockholder of Adsparg in consideration of certain indemnification obligations and other agreements. For one year following the closing of the transaction, the shareholder has agreed not to, directly or indirectly, transfer, donate, sell, assign, pledge, hypothecate, grant a security interest in or otherwise dispose or attempt to dispose of all or any portion of shares issued to it (or any interest therein). As a result of the transaction, our headcount increased by seven full time employees and one part time employee on April 1, 2011.

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mHealth Technology License

On March 18, 2011, we entered into a binding letter of intent with a global health company for the license of one of our mobile communications software technology platforms for the sole purpose of developing, delivering and sublicensing mobile health and medicine applications. The letter of intent expires July 1, 2011 and may be terminated without obligation or liability by mutual agreement of the parties.

The letter of intent provides for the execution of a master services agreement between the parties, and an upfront nonrefundable prepayment to us of \$50,000 for a one year license to the Company's C4 platform. This payment was received March 28, 2011. On or before June 30, 2011, we may receive an exclusivity payment of \$450,000 and 1.07 million shares of the global health company in consideration for our not granting any other person or entity a license to our software technology platform for the delivery of mobile health and medicine applications, subject to undefined milestones and minimum payments. If this exclusivity payment is made prior to June 30, 2011, the parties agree to set license fees payable to mutually agreeable levels, and the global health company agrees to invest a minimum of \$1,000,000 over an 18 month period for the development of mobile health and medicine applications.

March / April 2011 Private Placement

We commenced a private placement in late March 2011, and believe the process will continue until late April 2011. As of April 12, 2011, we have raised gross proceeds of \$445,000. The private placement structure consists of a series of identical subscription agreements offering subscribers an opportunity to invest in units comprised of shares of our common stock at a price of \$1.50 per share and an equivalent number of warrants at an exercise price of \$2.00. Both the shares and the warrants are price protected by us. The price protection obligates us to issue to the investors an additional number of shares in the event that common shares are issued at a price below \$1.50 until the shares become freely trading.

Mobivity Acquisition

On April 8, 2011, we entered into an acquisition agreement with Mobivity, LLC and Mobile Visions, Inc. to acquire the assets of their Mobivity interactive mobile marketing platform and services business. We concurrently completed the acquisition effective as of April 1, 2011.

The purchase price for the acquisition was 1,000,000 shares of our common stock, \$64,969 in cash paid at closing and a secured subordinated promissory note of CommerceTel, Inc. (our wholly owned subsidiary) in the principal amount of \$606,054. The promissory note earns interest at 6.25% per annum; is payable in six quarterly installments of \$105,526.42 (inclusive of interest) starting May 1, 2011; matures on August 1, 2012; is secured by the acquired assets of the Mobivity business; and is subordinated to our obligations under our outstanding 10% Senior Secured Convertible Bridge Notes Due November 3, 2011.

Industry Background

The area of our business consists of advertising and marketing. While advertising raises awareness and fosters positive perceptions of a product, service or company through brand-building or individually-targeted campaigns, marketing activities occur once the consumer decides to interact with the brand, and are focused on convincing the consumer to take action, for example request information, opt-in to a campaign, or make a purchase.

The Mobile Marketing Association, the premier global non-profit trade association in the area of mobile marketing, has defined mobile marketing as a set of practices that enables organizations to communicate and engage with their audience in an interactive and relevant manner through any mobile device or network. Mobile marketing is commonly

known as wireless marketing.

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Mobile advertising is a rapidly growing business providing brands, agencies and marketers the opportunity to connect with consumers beyond traditional and digital media directly on their mobile phones. Today's mobile phones are utilized for more than just making and receiving calls. Besides voice services, mobile users have access to data services such Short Message Service (SMS), also known as text messaging, picture messaging, content downloads and the Mobile Web. These media channels carry both content and advertising. The mobile phone is an extremely personal device as each mobile phone typically has one unique user. This makes the mobile phone a precisely targeted communication channel, where users are highly engaged with content. As a result, the mobile channel is a highly effective campaign tool and its response levels are high compared to other media. Mobile is valuable as a stand-alone medium for advertising, but it is also well suited for a vital role in fully integrated cross-media campaign plans, including TV, print, radio, outdoor, cinema, online and direct mail. We believe that the future of digital media will be driven by mobile phones where a direct, personal conversation can be had with the world's largest network. The future of mobile includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life.

Mobile advertising campaigns may use multiple channels to reach the consumer, including Mobile Web sites, mobile applications, mobile messaging and mobile video, all of which can be integrated into interactive campaigns. Each channel can link to additional mobile content or channels, as well as to complementing traditional media. Mobile advertising provides a powerful, instant and interactive response path in that consumers may send a keyword to a short code via SMS, or register on a Mobile Web site.

Mobile Web

The Mobile Web is quickly emerging as a mainstream information, entertainment and transaction source for people on the move and away from a PC. Browsing the Mobile Web is similar to traditional PC-based Web browsing and provides users with access to news, sports, weather, entertainment and shopping sites. However, there are some significant differences between PC based access and phone-based access:

- The mobile phone is a targeted device with typically only one user. This enable the delivery of relevant communications causing users to become engaged immediately with campaigns and content resulting in increased campaign effectiveness.
- Mobile phones do not permit detailed search and delivery. Rather, mobile users will usually seek quick access to succinct information and services. Space on mobile phone screens is at a premium, and users have limited input mechanisms, so Mobile Web sites need to be easy to navigate using just the mobile phone keypad.
- Mobile phones have a broad range of different form factors, screen sizes and resolutions, all of which presents a challenge for the display and optimal viewing of content and advertising.

Mobile Messaging

Mobile messaging technology enables users to communicate in a so-called asynchronous manner, where messages are stored in the network and delivered to the recipient as soon as the recipient's mobile phone can receive it. Once delivered, the message is stored on the users' mobile phone. SMS (Short Messaging Service) allows a mobile user to send and receive a text message of up to 160 characters and across virtually any operator network. This service is also referred to as "text messaging" or "texting". All recent mobile phone models support SMS. As a result, the large installed base of SMS phones creates a large addressable market for SMS-based mobile marketing campaigns. MMS (Multimedia Messaging Service) is the rich media equivalent to SMS text messages. An MMS message can include graphics, photos, audio and video, in addition to text. MMS is not yet universally supported by all networks, however this market segment is growing. SMS and MMS services are together referred to as "mobile messaging" or "messaging".

The stickiness of Mobile Messaging, the enormous reach of SMS and the rich media capabilities of MMS make this channel a highly rewarding advertising opportunity.

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Mobile messaging represents an opportunity for advertising placement. Media publishers are using messaging to distribute mobile content. Businesses are providing consumer services through mobile messaging. These messages provide inventory into which advertisements can be inserted. In addition, it is now possible to purchase advertising in personal – person-to-person (P2P) – SMS and MMS messages.

Mobile devices have become one of the most widely used means of communication globally. Significant technological advancements have and are continuing to provide mobile users with increased access to features previously available only on PCs, such as Internet browsing, email and social networking. As mobile devices have evolved, they have begun to enable brands and advertising agencies to interact with consumers virtually anytime and anywhere, optimizing engagement with other traditional media while lowering the cost of customer acquisition and retention.

As a result, mobile devices have emerged as an important media method for brands and advertising agencies to interact with consumers. According to ABI Research, mobile marketing and advertising spending is expected to increase from \$1.64 billion in 2007 to nearly \$29 billion in 2014.

The CommerceTel Solution

We remove three technical barriers to achieve the ultimate goal of engaging the consumer via their mobile devices:

Multimodal Communication: Cell phones are used for voice conversations, to take pictures, sending and receiving SMS text messages, and several other tasks. Marketers and enterprises need to include multiple communication modalities when interacting with the mobile consumer. Engaging only one channel to the mobile consumer, for example SMS text messaging, will only result in a partial engagement with the consumer. We solve this problem via our carrier-grade integrated infrastructure delivering access to all modes of mobile communication from SMS to MMS to IVR and beyond.

Campaign Design and Management. The ability to conceptualize, create, and execute mobile marketing campaigns or enterprise applications in an efficient manner is affected by software and tools available at any given time. Fragmented tool sets, costly service models, and prolonged time-to-market will impede and impair the growth of the industry. Our Web-based solution, “C4”, is a unified services creation environment that enables brands and enterprises to create, manage, and report on campaigns through a set of hosted Web tools.

Analytics. Fragmented analytic solutions (i.e. the lack of a uniform tool set used to analyze mobile consumers’ preferences) only provide insights into disparate modalities of the mobile channel. For example, a Mobile Web analytics solution reveals a consumer’s Internet consumption while neglecting that same consumer’s SMS and Voice related activities. Our patent pending “Personalization Engine” leverages an innovative approach to gaining deep insight into mobile consumer activities and their associated profiles.

Our Principal Competitive Strength

We believe that we have a significant advantage over our main competitors for the following reasons:

- **Proprietary Technology:** Our proprietary, patent pending technology enables our customers to reach across all mobile phone interfaces. We continue to develop, design and deploy enterprise-grade software that we believe is more advanced than technologies developed by our competitors.
- **IVR and Voice Capabilities:** Our IVR and Voice capabilities allow marketers, content owners, and search operators the freedom of engaging mobile consumers outside of wireless carrier controlled messaging networks. In many instances our competitors have outsourced business to us to enable IVR features in their service offerings. This

fundamental advantage has allowed us to quickly penetrate major brands.

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- **In-house Expertise:** We believe that our primary technical advantage is that we've built most of our systems in-house, relieving us from costly software licensing fees associated with IVR platforms, SMS messaging and other platforms. For example, IVR software typically ranges from \$150 to \$1,000 per port, plus annual maintenance and support fees. Our current infrastructure supports over 10,000 IVR ports without any associated IVR licensing costs. In addition, there are unavoidable provisioning times for interconnecting with VOIP (voice over internet protocol) and PSTN (public switched telephone networks) that can take a minimum of 90 days, plus another 30 days for equipment provisioning.

Marketing and Sales

We believe that a successful marketing campaign addressed to mobile marketing and content operators, particularly large agencies and brands, is largely dependent on strong personal relationships with executives and a solutions-based sales approach. We intend to employ an executive level sales team capable of fostering direct relationships with brands while business development resources will focus on channel partnerships through IT systems integrators and marketing agencies.

Certain minimum capitalization and financial levels are usually required by large enterprises when seeking technical vendors. Therefore, we intend to employ a partnership strategy in selling to large enterprises. Partnerships will allow us to sell into larger enterprises during our early growth period by avoiding having to meet these minimum capitalization levels.

We also intend to employ a small executive level sales team and continue our market leadership position with our large brand name client base establishing credibility and entrée to prospective, targeted accounts across all vertical segments. As key accounts are won, and we begin to scale, our strategy will employ a core "Client Services" team to serve existing clients and drive revenue growth from existing business, while a direct sales force will be tasked with focusing exclusively on new client relationships.

Our Platform

The ability to conceptualize, create, and execute mobile marketing campaigns or enterprise applications will be directly affected by software and tools available to design and deliver solutions efficiently and effectively. Fragmented tool sets, costly service models, and prolonged time-to-market will impede and impair the growth of the industry.

Our Web-based solution, "C4", is a unified services creation environment empowering brands and enterprises with the ability to create, manage, and report on campaigns through a set of hosted Web tools.

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Research and Development

We have built a strong internal software development team that has many years of experience in the mobile advertising and marketing industries. As of December 31, 2010, we had three engineers and software developers in our development centers located in San Diego, CA. Our recent research and development activities have been focused on enhancements to our platform. Current research and development initiatives continue to focus on extending our technology into payment processing, location based services, application analytics, and other technical opportunities in the evolving mobile industry.

We believe that having a dedicated, highly-trained advanced projects team enables us to effectively address the rapidly evolving mobile marketing and advertising services market.

We expect our total research and development expenditures in calendar year 2011 to be approximately \$400,000.

Competition

Although the market for mobile marketing and advertising solutions is relatively new, it is very competitive. We compete with companies of all sizes in select geographies that offer solutions that compete with single elements of our platform, such as mobile advertising networks, mobile ad serving and ad routing providers, mobile website and content creators, providers of mobile publishing and application development, SMS aggregators or providers of mobile analytics. We compete at times with interactive and traditional advertising agencies that perform mobile marketing and advertising as part of their services to their customers. Some of these entities have significantly greater resources than we do.

As a result of industry developments, some of our competitors may in the future create an integrated platform with features similar to ours, for example, Google, Inc.'s proposed acquisition of Admob, Inc. which was announced in November 2009, Apple, Inc.'s acquisition of Quattro Wireless, Inc. in January 2010, and the entry of larger companies such as Nokia, AOL, Microsoft and Yahoo! into the mobile media markets. However, we do not compete directly with these companies as we believe we are the only provider of an integrated, end-to-end mobile marketing and mobile advertising platform with a significant global presence.

We believe that the key competitive factors that our customers use in selecting solutions include the availability of:

- an integrated, scalable and relatively easy to implement platform that can expand the reach of their future campaigns;
 - solutions providing high quality functionality that meet their immediate marketing and advertising needs;
 - sophisticated analytics and reporting;
 - competitive pricing;
 - existing strategic relationships with customers globally;
 - high levels of quality service and support; and
- a sophisticated and financially stable provider with a proven track record.

We believe that we compete favorably on each of these factors. Our extensive experience managing global marketing and advertising campaigns, together with experienced professional services to implement and integrate these options globally, provides us with an advantage that many of our competitors lack.

The consolidation of our competitors offering point solutions into larger organizations with increased resources is a recent trend in the industry. The effects of such acquisitions on the market are still unclear.

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Seasonality

Our business, as is typical of companies in our industry, is highly seasonal. This is primarily due to traditional marketing and advertising spending being heaviest during the holiday season while brands, advertising agencies, mobile operators and media companies often close out annual budgets towards the end of a given year. Seasonal trends have historically contributed to, and we anticipate will continue to contribute to fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

Intellectual Property

We regard the protection of our developed technologies and intellectual property rights as an important element of our business operations and as crucial to our success. We rely primarily on a combination of patent laws, trademark laws, copyright laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technology. We generally require our employees, consultants and advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except under specific circumstances. In the case of our employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property. The development of our technology and many of our processes are dependent upon the knowledge, experience and skills of key scientific and technical personnel.

We did not own any patents on December 31, 2010. However, we have three pending U.S. patent applications. U.S. Provisional Patent Application number 20070249369 was filed on April 25, 2007. This patent application is described as a system, method and apparatus for delivering Web content to a mobile telephone or related device by using a dialing code that is provided. In an exemplary embodiment, a user who dials a telephone number, or other dialing code, and subsequently receives content sent to the user's mobile handset. In another embodiment, content is Web content sent to the user's phone via a Wireless Application Protocol (WAP) process.

U.S. Provisional Patent Application number 61/421211 was filed on December 9, 2010. This patent application describes the Geo-Bio-Metric Pin, a service that authenticates a user from a feature phone or smart phone using a number of mobile attainable attributes: Geolocation, Facial Image, Accelerometer, and text messaging. The end goal of the Geo-Bio-Metric Pin service is to authenticate a user while verifying the following: 1) the user is currently using his/her phone; 2) the user is at the geolocation that their phone is at; 3) the user is not at another location and using their phone through a proxy; and 4) an impostor is not using the phone.

U.S. Provisional Patent Application number 12/983284 was filed on December 8, 2010. This patent application describes a content delivery method and system comprising receiving, in a first communication mode, a request for information from a mobile device; sending, in the first communication mode, one or more content selection options; receiving, in the first communication mode, a selection in response to the one or more content selection options; and facilitating, in a second communication mode, delivery of content corresponding to the selection to the mobile device.

In March 2011, we acquired US Patent number 6788769 B1 which covers a method and system for using telephone numbers as a key to address email and online content without the use of a lookup database. Using this system, a phone number is used to access a website or an email address in exactly the same way it is used to dial a telephone.

Any future patents that may issue may not survive a legal challenge to their scope, validity or enforceability, or provide significant protection for us. The failure of our patents, or our reliance upon copyright and trade secret laws to adequately protect our technology might make it easier for our competitors to offer similar products or technologies. In addition, patents may not issue from any of our current or any future applications.

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Employees

As of April 13, 2011, we had thirteen full-time employees, one part-time employee and three contract employees. Sales, marketing, and business development functions are provided by eight full time employees. Engineering and research and development functions are provided by three full time employees, one part-time employee and two contract employees. General administration, finance, and executive management consist of two full time employees and one consultant.

Government Regulation

Depending on the products and services that they offer, mobile data service providers may be subject to regulations and laws applicable to providers of mobile, Internet and VOIP services both domestically and internationally. In addition, the application of existing domestic and international laws and regulations relating to issues such as user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, telecommunications, mobile, television and intellectual property ownership and infringement to wireless industry providers and platforms in many instances is unclear or unsettled. Further, the application of existing laws regulating or requiring licenses for certain businesses of our advertisers can be unclear.

It is possible that a number of laws and regulations may be adopted in the countries where we operate, which may be inconsistent and which could restrict the wireless communications industry, including laws and regulations regarding network management and device interconnection, lawful interception of personal data, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of the market for electronic storage of personal information may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies that store personal information. We anticipate that regulation of our industry generally will increase and that we will be required to devote legal and other resources to address this regulation.

We are directly subject to certain regulations and laws applicable to providers of Internet and mobile services both domestically and internationally. The application of existing domestic and international laws and regulations relating to issues such as user privacy and data protection, marketing, advertising, consumer protection and mobile disclosures in many instances is unclear or unsettled.

United States Regulatory Environment

In addition to its regulation of wireless telecommunications providers generally, the U.S. Federal Communications Commission, or FCC, has shown interest in at least three areas that impact our business: research and development with regards to innovation, competition in the wireless industry and consumer protection with an emphasis on truth-in-billing. The FCC has examined, or is currently examining, how and when consumers enroll in mobile services, what types of disclosures consumers receive, what services consumers are purchasing and how much consumers are charged. In addition, the Federal Trade Commission, or FTC, has been asked to regulate how mobile marketers can use consumers' personal information. Consumer advocates claim that many consumers do not know when their information is being collected from cell phones and how such information is retained, used and shared with other companies. Consumer groups have asked the FTC to identify practices that may compromise privacy and consumer welfare; examine opt-in procedures to ensure consumers are aware of what data is at issue and how it will be used; investigate marketing tactics that target children and create policies to halt abusive practices. The FTC has expressed interest in particular in the mobile environment and services that collect sensitive data, such as location-based information.

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- **Deceptive Trade Practice Law in the U.S.** The FTC and state attorneys general are given broad powers by legislatures to curb unfair and deceptive trade practices. These laws and regulations apply to mobile marketing campaigns and behavioral advertising. The general guideline is that all material terms and conditions of the offer must be "clearly and conspicuously" disclosed to the consumer prior to the buying decision. In practice, the definition of clear and conspicuous disclosure is often a subjective determination. The balancing of the desire to capture a potential customer's attention, while providing adequate disclosure, can be even more challenging in the mobile context due to the lack of space.
- **Behavioral Advertising.** Behavioral advertising is a technique used by online publishers and advertisers to increase the effectiveness of their campaigns. Behavioral advertising uses information collected from an individual's web-browsing behavior, such as the pages they have visited or the searches they have made, to select which advertisements to display to that individual. This data can be valuable for online marketers looking to personalize advertising initiatives or to provide geo-tags through mobile devices. Currently, behavioral advertising is not formally regulated in the U.S., but many businesses adhere to industry self-governing principles, including an opt-out regime whereby information may be collected until an individual indicates that he or she no longer agrees to have this information collected. The FTC and EU member states are considering regulations in this area, which may include implementation of a more rigorous opt-in regime. An opt-in policy would prohibit businesses from collecting and using information from individuals who have not voluntarily consented. Among other things, the implementation of an opt-in regime could require substantial technical support and negatively impact the market for our mobile advertising products and services. A few states have also introduced bills in the past two years that would restrict or prohibit behavioral advertising within the state. These bills would likely have the practical effect of regulating behavioral advertising nationwide because of the difficulties behind implementing state-specific policies or identifying the location of a particular consumer.
- **Behavioral Advertising-Privacy Regulation.** Our business is affected by U.S. federal and U.S. state, as well as EU member state and foreign country, laws and regulations governing the collection, use, retention, sharing and security of data that we receive from and about our users. In recent years, regulation has focused on the collection, use, disclosure and security of information that may be used to identify or that actually identifies an individual, such as an Internet Protocol address or a name. Although the mobile and Internet advertising privacy practices are currently largely self-regulated in the U.S., the FTC has conducted numerous discussions on this subject and suggested that more rigorous privacy regulation is appropriate, possibly including regulation of non-personally identifiable information which could, with other information, be used to identify an individual. Within the EU, member state data protection authorities typically regard IP addresses as personal information, and legislation adopted recently in the EU requires consent for the placement of a cookie on a user device. In addition, EU data protection authorities are following with interest the FTC's discussions regarding behavioral advertising and may follow suit by imposing additional privacy requirements for mobile advertising practices.
- **Marketing-Privacy Regulation.** In addition, there are U.S. federal and state laws and EU member state and other country laws that govern SMS and telecommunications-based marketing, generally requiring senders to transmit messages (including those sent to mobile devices) only to recipients who have specifically consented to receiving such messages. U.S. federal, EU member state and other country laws also govern e-mail marketing, generally imposing an opt-out requirement for emails sent within an existing business relationship.
- **SMS and Location-Based Marketing Best Practices and Guidelines.** We are a member of the Mobile Marketing Association, or MMA, a global association of 700 agencies, advertisers, mobile device manufacturers, wireless operators and service providers and others interested in the potential of marketing via the mobile channel. The MMA has published a code of conduct and best practices guidelines for use by those involved in mobile messaging activities. The guidelines were developed by a collaboration of the major carriers and they require adherence to them as a condition of service. We voluntarily comply with the MMA code of conduct. In addition, the Cellular

Telephone Industry Association, or CTIA, has developed Best Practices and Guidelines to promote and protect user privacy regarding location-based services. We also voluntarily comply with those guidelines, which generally require notice and user consent for delivery of location-based services.

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- **TCPA.** The United States Telephone Consumer Protection Act, or TCPA, prohibits unsolicited voice and text calls to cell phones or the use of an auto-dialing system unless the recipient has given prior consent. The statute also prohibits companies from initiating telephone solicitations to individuals on the national Do-Not-Call list, unless the individual has given prior express consent or has an established business relationship with the company, and restricts the hours when such messages may be sent. In the case of text messages, a company must obtain opt-in consent to send messages to a mobile device. Violations of the TCPA can result in statutory damages of \$500 per violation (i.e., for each individual text message). U.S. state laws impose additional regulations on voice and text calls.
- **CAN-SPAM.** The U.S. Controlling the Assault of Non-Solicited Pornography and Marketing Act, or CAN SPAM, prohibits all commercial e-mail messages, as defined in the law, to mobile phones unless the device owner has given "express prior authorization." Recipients of such messages must also be allowed to opt-out of receiving future messages the same way they opted-in. Senders have ten days to honor opt-out requests. The FCC has compiled a list of domain names used by wireless service providers to which marketers may not send commercial e-mail messages. Senders have 30 days from the date the domain name is posted on the FCC site to stop sending unauthorized commercial e-mail to addresses containing the domain name. Violators are subject to fines of up to \$6.0 million and up to one year in jail for some spamming activities. Carriers, the FTC, the FCC, and State Attorneys General may bring lawsuits to enforce alleged violations of the Act.
- **Communications Privacy Acts.** Foreign, U.S. federal and U.S. state laws impose consent requirements for disclosures of contents of communications or customer record information. To the extent that we knowingly receive this information without the consent of customers, we could be subject to class action lawsuits for statutory damages or criminal penalties under these laws, which could impose significant additional costs and reputational harm. EU member state laws also require consent for our receiving this information, and if our carrier customers fail to obtain such consent we could be subjected to civil or even criminal penalties.
- **Security Breach Notification Requirements.** EU member state laws require notice to the member state data protection authority of a data security breach involving personal data if the breach poses a risk to individuals. In addition, Germany recently enacted a broad requirement to notify individuals in the event of a data security breach that is likely to be followed by notification requirements to data subjects in other EU member states. In the U.S., various states have enacted data breach notification laws, which require notification of individuals and sometimes state regulatory bodies in the event of breaches involving certain defined categories of personal information. Japan and Uruguay have also recently enacted security breach notice requirements. This new trend suggests that breach notice statutes may be enacted in other jurisdictions, including by the U.S. at the federal level, as well.
- **Children.** U.S. federal privacy regulations implementing the Children's Online Privacy Protection Act prohibit the knowing collection of personal information from children under the age of 13 without verifiable parental consent, and strictly regulate the transmission of requests for personal information to such children. Other countries do not recognize the ability of children to consent to the collection of personal information. In addition, it is likely that behavioral advertising regulations will impose special restrictions on use of information collected from minors for this purpose.

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Item 1A. Risk Factors.

Risks Related to our Business

Proceeds from our recent bridge note financing will not be sufficient to sustain our operations and we will need to raise additional capital to grow our business.

We anticipate, based on currently proposed plans and assumptions relating to our ability to market and sell our products, that our cash on hand including the proceeds from our recent bridge note financing as well as revenues from operations will not satisfy our operational and capital requirements for the next 12 months. Further, the operation of our business and our efforts to grow our business further both through acquisitions and organically will require significant cash outlays and commitments. The timing and amount of our cash needs may vary significantly depending on numerous factors, including but not limited to:

- market acceptance of our mobile marketing and advertising services;
- the need to adapt to changing technologies and technical requirements;
- the need to adapt to changing regulations requiring changes to our processes or platform; and
- the existence and cost of opportunities for expansion through internal growth and acquisitions.

Our existing working capital and the proceeds from our recent bridge note financing are not sufficient to meet our cash requirements and we will need to seek additional capital, potentially through debt, or equity financings, to fund our growth. We may not be able to raise cash on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive to our shareholders, and the prices at which new investors would be willing to purchase our securities may be lower than the current price of our ordinary shares. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our ordinary shares. If new sources of financing are required but are insufficient or unavailable, we would be required to modify our growth and operating plans to the extent of available funding, which could harm our ability to grow our business.

We may not be successful in executing our acquisition strategy.

Our future growth will largely depend on the successful execution of our acquisition strategy. If we are unable to acquire other companies in the mobile marketing sector, our growth, valuation and prospects will be adversely affected. It is possible that acquisition targets will not be receptive to either the valuation offered or our intention to pay for acquisitions using our common stock as the “currency”. If we are unable to grow other than organically, our growth prospects will be reduced and our ability to raise capital on acceptable terms and the value of our common stock will both be compromised.

In addition, our future acquisitions may be expensive and time-consuming and we may not realize anticipated benefits from them. The specific risks we may encounter in these types of transactions include the following:

- Potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets, which could adversely affect our results of operations and financial condition;
- The possibility that staff or customers of the acquired company might not accept new ownership and may transition to different technologies or attempt to renegotiate contract terms or relationships;
- The possibility that the due diligence process in any such acquisition may not completely identify material issues associated with product and service quality, intellectual property issues, key personnel issues or legal and financial contingencies; and

- Difficulty in integrating acquired operations due to technology constraints or geographical distance.

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A failure to successfully integrate acquired businesses for any of these reasons could have a material adverse effect on our results of operations.

We may not have the liquidity to settle our bridge notes at maturity.

Our \$1,000,000 principal amount outstanding of bridge notes (plus interest accrued at 10% annually) matures on the earlier of November 2, 2011 or the date on which we complete a financing in excess of \$1,250,000. There is no certainty that we will have the liquidity necessary to settle the bridge notes including accrued interest at the maturity date, nor is it certain that the bridge lenders will agree to an extension of the maturity date or an accommodation favorable to us. Our obligations under the bridge notes are secured by all of our assets. In the event we cannot settle the bridge notes at the maturity date or reach an accommodation with the bridge lenders, our operations would be severely jeopardized if not entirely curtailed.

Our sales efforts require significant time and effort and could hinder our ability to expand our customer base and increase revenue.

Attracting new customers requires substantial time and expense, especially in an industry that is so heavily dependent on personal relationships with executives. We cannot assure that we will be successful in establishing new relationships, or maintaining or advancing our current relationships. For example, it may be difficult to identify, engage and market to customers who do not currently perform mobile marketing or advertising or are unfamiliar with our current services or platform. Further, many of our customers typically require input from one or more internal levels of approval. As a result, during our sales effort, we must identify multiple people involved in the purchasing decision and devote a sufficient amount of time to presenting our products and services to those individuals. The complexity of our services, including our software-as-a-service model, often requires us to spend substantial time and effort assisting potential customers in evaluating our products and services including providing demonstrations and benchmarking against other available technologies. We expect that our sales process will become less burdensome as our products and services become more widely known and used. However, if this change does not occur, we will not be able to expand our sales effort as quickly as anticipated and our sales will be adversely affected.

We may not be able to enhance our mobile marketing and advertising platform to keep pace with technological and market developments, or to remain competitive against potential new entrants in our markets.

The market for mobile marketing and advertising services is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. Our current platform or platforms we may offer in the future may not be acceptable to marketers and advertisers. To keep pace with technological developments, satisfy increasing customer requirements and achieve acceptance of our marketing and advertising campaigns, we will need to enhance our current mobile marketing solutions and continue to develop and introduce on a timely basis new, innovative mobile marketing services offering compatibility, enhanced features and functionality on a timely basis at competitive prices. Our inability, for technological or other reasons, to enhance, develop, introduce and deliver compelling mobile marketing services in a timely manner, or at all, in response to changing market conditions, technologies or customer expectations could have a material adverse effect on our operating results or could result in our mobile marketing services platform becoming obsolete. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our mobile marketing services platform with evolving industry standards and protocols. In addition, as we believe the mobile marketing market is likely to grow substantially, other companies which are larger and have significantly more capital to invest than us may emerge as competitors. For example, in May 2010, Google, Inc. acquired Admob, Inc. Similarly, in January 2010, Apple, Inc. acquired Quattro Wireless, Inc. New entrants could seek to gain market share by introducing new technology or reducing pricing. This may make it more difficult for us to sell

our products and services, and could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

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Our customer contracts lack uniformity and often are complex, which subjects us to business and other risks.

Our customers include some of the largest enterprises which have substantial purchasing power and negotiating leverage. As a result, we typically negotiate contracts on a customer-by-customer basis and our contracts lack uniformity and are often complex. If we are unable to effectively negotiate, enforce and account and bill in an accurate and timely manner for contracts with our key customers, our business and operating results may be adversely affected. In addition, we could be unable to timely recognize revenue from contracts that are not managed effectively and this would further adversely impact our financial results.

Our services are provided on mobile communications networks that are owned and operated by third parties who we do not control and the failure of any of these networks would adversely affect our ability to deliver our services to our customers.

Our mobile marketing and advertising platform is dependent on the reliability of mobile operators who maintain sophisticated and complex mobile networks. Such mobile networks have historically, and particularly in recent years, been subject to both rapid growth and technological change. If the network of a mobile operator with which we are integrated should fail, including because of new technology incompatibility, the degradation of network performance under the strain of too many mobile consumers using it, or a general failure from natural disaster or political or regulatory shut-down, we will not be able provide our services to our customers through such mobile network. This in turn, would impair our reputation and business, potentially resulting in a material, adverse effect on our financial results.

If our mobile marketing and advertising services platform does not scale as anticipated, our business will be harmed.

We must be able to continue to scale to support potential ongoing substantial increases in the number of users in our actual commercial environment, and maintain a stable service infrastructure and reliable service delivery for our mobile marketing and advertising campaigns. In addition, we must continue to expand our service infrastructure to handle growth in customers and usage. If our mobile marketing services platform does not efficiently and effectively scale to support and manage a substantial increase in the number of users while maintaining a high level of performance, the quality of our services could decline and our business will be seriously harmed. In addition, if we are unable to secure data center space with appropriate power, cooling and bandwidth capacity, we may not be able to efficiently and effectively scale our business to manage the addition of new customers and overall mobile marketing campaigns.

The success of our business depends, in part, on wireless carriers continuing to accept our customers' messages for delivery to their subscriber base.

We depend on wireless carriers to deliver our customers' messages to their subscriber base. Wireless carriers often impose standards of conduct or practice that significantly exceed current legal requirements and potentially classify our messages as "spam," even where we do not agree with that conclusion. In addition, the wireless carriers use technical and other measures to attempt to block non-compliant senders from transmitting messages to their customers; for example, wireless carriers block short codes or Internet Protocol addresses associated with those senders. There can be no guarantee that we, or short codes registered to us, will not be blocked or blacklisted or that we will be able to successfully remove ourselves from those lists. Although our services typically require customers to opt-in to a campaign, minimizing the risk that our customers' messages will be characterized as spam, blocking of this type could interfere with our ability to market products and services of our customers and communicate with end users and could undermine the effectiveness of our customers' marketing campaigns. To date we have not experienced any material blocking of our messages by wireless carriers, but any such blocking could have an adverse effect on our business and results of operations.

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We depend on third party providers for a reliable Internet infrastructure and the failure of these third parties, or the Internet in general, for any reason would significantly impair our ability to conduct our business.

We outsource all of our data center facility management to third parties who host the actual servers and provide power and security in multiple data centers in each geographic location. These third party facilities require uninterrupted access to the Internet. If the operation of our servers is interrupted for any reason, including natural disaster, financial insolvency of a third party provider, or malicious electronic intrusion into the data center, our business would be significantly damaged. As has occurred with many Internet-based businesses, on occasion in the past, we have been subject to "denial-of-service" attacks in which unknown individuals bombarded our computer servers with requests for data, thereby degrading the servers' performance. While we have historically been successful in relatively quickly identifying and neutralizing these attacks, we cannot be certain that we will be able to do so in the future. If either a third party facility failed, or our ability to access the Internet was interfered with because of the failure of Internet equipment in general or we become subject to malicious attacks of computer intruders, our business and operating results will be materially adversely affected.

Failure to adequately manage our growth may seriously harm our business.

We operate in an emerging technology market and have experienced, and may continue to experience, significant growth in our business. If we do not effectively manage our growth, the quality of our products and services may suffer, which could negatively affect our brand and operating results. Our growth has placed, and is expected to continue to place, a significant strain on our managerial, administrative, operational and financial resources and our infrastructure. Our future success will depend, in part, upon the ability of our senior management to manage growth effectively. This will require us to, among other things:

- implement additional management information systems;
- further develop our operating, administrative, legal, financial and accounting systems and controls;
- hire additional personnel;
- develop additional levels of management within our company;
- locate additional office space in various countries; and
- maintain close coordination among our engineering, operations, legal, finance, sales and marketing and customer service and support organizations.

Moreover, as our sales increase, we may be required to concurrently deploy our services infrastructure at multiple additional locations or provide increased levels of customization. As a result, we may lack the resources to deploy our mobile marketing services on a timely and cost-effective basis. Failure to accomplish any of these requirements would seriously harm our ability to deliver our mobile marketing services platform in a timely fashion, fulfill existing customer commitments or attract and retain new customers.

We depend on the services of key personnel to implement our strategy. If we lose the services of our key personnel or are unable to attract and retain other qualified personnel, we may be unable to implement our strategy.

We believe that the future success of our business depends on the services of a number of key management and operating personnel, including Dennis Becker, our Chief Executive Officer, Alex Shah, our Chief Technology Officer, and Brad Morrow, our Vice President of Product Management. We currently have an employment agreement in place with Mr. Becker. We do not maintain any key-person life insurance policies. Some of these key employees have strong relationships with our customers and our business may be harmed if these employees leave us. The loss of members of our key management and certain other members of our operating personnel could materially adversely affect our business, operating results and financial condition.

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In addition, our ability to manage our growth depends, in part, on our ability to identify, hire and retain additional qualified employees, including a technically skilled development and engineering staff. We face intense competition for qualified individuals from numerous technology, marketing and mobile software and service companies. We require a mix of highly talented engineers as well as individuals in sales and support who are familiar with the marketing and advertising industry. In addition, new hires in sales positions require significant training and may, in some cases, take more than a year before they achieve full productivity. Our recent sales force hires and planned hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. Further, given the rapid pace of our expansion to date, we may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing, creative, operational and managerial requirements, or may be required to pay increased compensation in order to do so. If we are unsuccessful in attracting and retaining these key personnel, our ability to operate our business effectively would be negatively impacted and our business, operating results and financial condition would be adversely affected.

The gathering, transmission, storage and sharing or use of personal information could give rise to liabilities or additional costs of operation as a result of governmental regulation, legal requirements, civil actions or differing views of personal privacy rights.

We transmit and store a large volume of personal information in the course of providing our services. Federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from our customers and their users. Any failure, or perceived failure, by us to comply with U.S. federal, state, or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business, operating results and financial condition. Additionally, we may also be contractually liable to indemnify and hold harmless our customers from the costs or consequences of inadvertent or unauthorized disclosure of their customers' personal data which we store or handle as part of providing our services.

The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally, particularly with regard to location-based services, use of customer data to target advertisements and communication with consumers via mobile devices. Such laws may be interpreted and applied inconsistently from country to country and inconsistently with our current data protection policies and practices. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business, operating results or financial condition.

As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of personal information. These and other privacy concerns, including security breaches, could adversely impact our business, operating results and financial condition.

In the U.S., we have voluntarily agreed to comply with wireless carrier technological and other requirements for access to their customers' mobile devices, and also trade association guidelines and codes of conduct addressing the provision of location-based services, delivery of promotional content to mobile devices and tracking of users or devices for the purpose of delivering targeted advertising. We could be adversely affected by changes to these requirements, guidelines and codes, including in ways that are inconsistent with our practices or in conflict with the rules or guidelines in other jurisdictions.

Our management team has limited experience in public company matters, which could impair our ability to comply with legal and regulatory requirements.

Our management team, with the exception of our Chief Financial Officer, has only limited public company management experience or responsibilities, which could impair our ability to comply with legal and regulatory

requirements such as the Sarbanes-Oxley Act of 2002 and applicable federal securities laws including filing required reports and other information required on a timely basis. There can be no assurance that our management will be able to implement and affect programs and policies in an effective and timely manner that adequately respond to increased legal, regulatory compliance and reporting requirements imposed by such laws and regulations. Our failure to comply with such laws and regulations could lead to the imposition of fines and penalties and further result in the deterioration of our business.

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Risks Related to our Common Stock

There has been a limited trading market for our common stock.

There has been a limited trading market for our common stock on the Over-the-Counter Bulletin Board. The lack of an active market may impair the ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using common stock as consideration.

Our freely trading share volume will increase significantly.

As of December 31, 2010, we had 17.7 million common shares outstanding, of which 6.0 million shares were free trading and 11.7 million shares were restricted pursuant Rule 144 promulgated under the Securities Act of 1933. This restriction is expected to be lifted in November 2011 which will result in a significant number of additional shares becoming freely tradable. We also have issued and intend to continue to issue additional common shares in the execution of our acquisition strategy, both increasing the number of free trading shares and dilution. This increase in both free trading shares and total shares outstanding may have a depressive effect on our stock price and a deleterious effect on our ability to both raise additional equity capital and complete acquisitions using our common stock as the principal currency.

You may have difficulty trading and obtaining quotations for our common stock.

Our common stock may not be actively traded, and the bid and asked prices for our common stock on the Over-the-Counter Bulletin Board may fluctuate widely. As a result, investors may find it difficult to dispose of, or to obtain accurate quotations of the price of, our securities. This severely limits the liquidity of the common stock, and would likely reduce the market price of our common stock and hamper our ability to raise additional capital.

The market price of our common stock may be, and is likely to continue to be, highly volatile and subject to wide fluctuations.

The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including:

- dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we expect to make in connection with future acquisitions or capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;
 - announcements of new acquisitions or other business initiatives by our competitors;
 - our ability to take advantage of new acquisitions or other business initiatives;
- quarterly variations in our revenues and operating expenses;
 - changes in the valuation of similarly situated companies, both in our industry and in other industries;
 - changes in analysts' estimates affecting us, our competitors and/or our industry;
 - changes in the accounting methods used in or otherwise affecting our industry;
 - additions and departures of key personnel;
 - announcements by relevant governments pertaining to additional quota restrictions; and
 - fluctuations in interest rates and the availability of capital in the capital markets.

These and other factors are largely beyond our control, and the impact of these risks, singly or in the aggregate, may result in material adverse changes to the market price of our common stock and/or our results of operations and

financial condition.

Our operating results may fluctuate significantly, and these fluctuations may cause our stock price to decline.

Our operating results will likely vary in the future primarily as the result of fluctuations in our revenues and operating expenses, expenses that we incur, prices of feed used in our business, the price that customer are willing and able to pay for our products and other factors. If our results of operations do not meet the expectations of current or potential investors, the price of our common stock may decline.

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We do not expect to pay dividends in the foreseeable future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms or at all. Investors cannot be assured of a positive return on investment or that they will not lose the entire amount of their investment in the common stock.

Our directors and officers will have a high concentration of common stock ownership.

Based on the 17,700,000 shares of common stock that are outstanding as of December 31, 2010, our officers and directors will beneficially own approximately 41.6% of our outstanding common stock. Such a high level of ownership by such persons may have a significant effect in delaying, deferring or preventing any potential change in control of our company. Additionally, as a result of their high level of ownership, our officers and directors might be able to strongly influence the actions of our board of directors and the outcome of actions brought to our shareholders for approval. Such a high level of ownership may adversely affect the voting and other rights of our shareholders.

Applicable SEC rules governing the trading of “penny stocks” limit the trading and liquidity of our common stock, which may affect the trading price of our common stock.

Shares of common stock may be considered a “penny stock” and be subject to SEC rules and regulations which impose limitations upon the manner in which such shares may be publicly traded and regulate broker-dealer practices in connection with transactions in “penny stocks.” Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules which may increase the difficulty investors may experience in attempting to liquidate such securities.

Item 2. Properties.

We currently lease 3,751 square feet of office space located at 8929 Aero Drive, Suite E, San Diego, CA 92123 at a monthly expense of \$5,441. The original 60 month lease term expires June 30, 2012. We believe the property is sufficient for our needs at this time.

Item 3. Legal Proceedings.

We are not currently involved in any legal proceedings and we are not aware of any pending or potential legal actions.

Item 4. Removed and Reserved.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matter and Issuer Purchases of Equity Securities.

Our common stock has been traded on the Over-the-Counter Bulletin Board, or OTCBB, under the symbol "MFON" since December 9, 2010. From January 2010 to that date, our stock was traded on the OTCBB under the symbol "AREV".

Our common stock trades only sporadically and has experienced in the past, and is expected to experience in the future, significant price and volume volatility.

The following table sets forth the range of high and low bid quotations for our common stock, as reported by the OTCBB, on a quarterly basis for the fiscal year ended December 31, 2010. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Year Ended December 31, 2010	High	Low
Fourth Quarter	\$ 1.50	\$.10
Third Quarter	\$.10	\$.10
Second Quarter	\$.10	\$.10
First Quarter	\$.10	\$.10

Holders of Record

As of February 3, 2011, there were approximately 39 holders of record of our common stock.

Dividend Policy

We paid no cash dividends in respect of our common stock during our two most recent fiscal years, and we have no plans to pay any dividends or make any other distributions in the foreseeable future. The payment by us of dividends, if any, in the future, rests within the discretion of our board of directors and will depend, among other things, upon our earnings, capital requirements and financial condition.

Stock Repurchases

We did not repurchase any of our common stock in 2010.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth additional information as of December 31, 2010 with respect to the shares of common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements in effect as of December 31, 2010. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and the number of shares remaining available for future grant, excluding the shares to be issued upon exercise of outstanding options.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans not approved by security holders (1)	1,808,750	\$ 0.32	1,315,250
Total	1,808,750	\$ 0.32	1,315,250

(1) Comprised of our 2010 Incentive Stock Plan

Item 6. Selected Financial Data.

As a smaller reporting company, as defined by Section 10(f)(1) of Regulation S-K we are not required to provide the information set forth in this Item.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the related notes and other information that are included elsewhere in this Form 10-K. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the cautionary note regarding "Forward-Looking Statements" contained elsewhere in this Form 10-K. Additionally, you should read the "Risk Factors" section of this Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a provider of technology that enables major brands and enterprises to engage consumers via their mobile phone. Interactive electronic communications with consumers is a complex process involving communication networks and software. We remove this complexity through our suite of services and technologies thereby enabling brands, marketers, and content owners to communicate with their customers and consumers in general. From Presidential elections to major broadcast events, we are pioneers in the deployment of the mobile channel as the ultimate direct connection to the consumer.

Mobile phone users represent a large and captive audience. While televisions, radios, and even PCs are often shared by multiple consumers, mobile phones are personal devices representing a truly unique and individual address to the end user. The future of digital media will be driven by mobile phones where a direct, personal conversation can be had with the world's largest audience. The future of mobile includes banking, commerce, advertising, video, games and just about every other aspect of both on and offline life. Over 4 million consumers have been engaged via their mobile device thanks to our technology.

We believe that our mobile marketing and advertising campaign platform is among the most advanced in the industry as it allows real time interactive communications with consumers. We generate revenue from licensing our software to clients in our software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services.

Our "C4" Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution enabling our clients to develop, execute, and manage a variety of engagements to a consumer's mobile phone. Short Messaging Service (SMS), Multi-Media Messaging (MMS), and Interactive Voice Response (IVR) interactions can all be facilitated via a set of Graphical User Interfaces (GUIs). Reporting and analytics capabilities are also available to our users through the C4 solution.

Mobile devices are emerging as the principal interactive channel for brands to reach consumers since it is the only media platform that has access to the consumer virtually anytime and anywhere. Brands and advertising agencies are recognizing the unique benefits of the mobile channel and they are increasingly integrating mobile media within their overall advertising and marketing campaigns. Our objective is to become the industry leader in connecting brands and enterprises to consumers' mobile phones.

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Recent Events

Share Exchange Agreement

On November 2, 2010, we completed the Share Exchange and acquired CommerceTel, Inc., in exchange for 10,000,000 shares of our common stock. Please refer to Note 1 in the accompanying consolidated financial statements.

Bridge Note Financing

On November 2, 2010, we issued to a number of accredited investors our 10% Senior Secured Convertible Bridge Notes in the aggregate principal amount of \$1,000,000.

Txtstation Acquisition

On April 1, 2011, we acquired substantially all of the assets of the Txtstation interactive mobile marketing platform and services business from Adsparg. The purchase price for the acquisition was 2,125,000 shares of our common stock and \$300,000 in cash. Of the cash portion, \$50,000 was paid at closing, with an additional \$25,000 payable on the 60th day following closing. The balance is payable in \$25,000 installments at the end of each of the next nine 30-day periods thereafter. We assumed none of Adsparg's liabilities.

In connection with the transaction, we also issued 300,000 shares of our common stock to the controlling stockholder of Adsparg in consideration of certain indemnification obligations and other agreements. As a result of the transaction, our headcount increased by seven full time individuals and one part time individual on April 1, 2011.

mHealth Technology License

On March 18, 2011, we entered into a letter of intent with a global health company for the license of one of our mobile communications software technology platforms for the sole purpose of developing, delivering and sublicensing mobile health and medicine applications. The letter of intent expires July 1, 2011 and may be terminated without obligation or liability by mutual agreement of the parties.

The letter of intent provides for the execution of a master services agreement between the parties, and an upfront nonrefundable prepayment to us of \$50,000 for a one year license to the Company's C4 platform. This payment was received March 28, 2011. On or before June 30, 2011, we may receive an exclusivity payment of \$450,000 and 1.07 million shares of the global health company in consideration for our not granting any other person or entity a license to our software technology platform for the delivery of mobile health and medicine applications, subject to undefined milestones and minimum payments. If this exclusivity payment is made prior to June 30, 2011, the parties agree to set license fees payable to mutually agreeable levels, and the global health company agrees to invest a minimum of \$1,000,000 over an 18 month period for the development of mobile health and medicine applications.

March / April 2011 Private Placement

We commenced a private placement in late March 2011, and believe the process will continue until late April 2011. As of April 12, 2011, we have raised gross proceeds of \$445,000. The private placement structure consists of a series of identical subscription agreements offering subscribers an opportunity to invest in units comprised of shares of our common stock at a price of \$1.50 per share and an equivalent number of warrants at an exercise price of \$2.00. Both the shares and the warrants are price protected by us. The price protection obligates us to issue to the investors an additional number of shares in the event that common shares are issued at a price below \$1.50 until the shares become

freely trading.

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Mobivity Acquisition

On April 8, 2011, we entered into an acquisition agreement with Mobivity, LLC and Mobile Visions, Inc. to acquire the assets of their Mobivity interactive mobile marketing platform and services business. We concurrently completed the acquisition effective as of April 1, 2011.

The purchase price for the acquisition was 1,000,000 shares of our common stock, \$64,969 in cash paid at closing and a secured subordinated promissory note of CommerceTel, Inc. (our wholly owned subsidiary) in the principal amount of \$606,054. The promissory note earns interest at 6.25% per annum; is payable in six quarterly installments of \$105,526 (inclusive of interest) starting May 1, 2011; matures on August 1, 2012; is secured by the acquired assets of the Mobivity business; and is subordinated to our obligations under our outstanding 10% Senior Secured Convertible Bridge Notes Due November 3, 2011.

Results of Operations

The following discussion of our operating results explains material changes in our results of operations for the years ended December 31, 2010 and 2009. The discussion should be read in conjunction with the financial statements and related notes included elsewhere in this Form 10-K.

Comparison of the Years Ended December 31, 2010 and 2009

Revenues

Revenues for the year ended December 31, 2010 increased \$65,481, or 7.7%, compared to the year ended December 31, 2009. The increase is primarily the result of higher revenues for software licensing and SMS.

Cost of Revenues

Cost of revenues for the year ended December 31, 2010 decreased \$129,626, or 23.7% compared to the year ended December 31, 2009. This decrease is due to lower costs for SMS transmission resulting from a change in providers, a savings of approximately \$95,000. Further reduction in costs related to local voice origination charges, a savings of approximately \$30,000, due to reduced traffic from VoIP customers versus the same period in 2009.

Gross Profit

Gross profit for the year ended December 31, 2010 increased by \$195,107, or 63.7%, compared to the year ended December 31, 2009. Gross profit as a percentage of revenue for the year ended December 31, 2010 increased to 54.5% compared to 35.9% in 2009.

Sales and Marketing Expense

Sales and marketing expenses for the years ended December 31, 2010 and 2009 were \$225,783 and \$114,263, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, sales travel, consulting costs and other expenses. The increase of \$111,520 was due to an increase in sales and marketing travel, and sales consulting costs that were incurred in 2010 as we grew our business.

Engineering, Research, and Development Expense

Engineering, research, and development expenses for the years ended December 31, 2010 and 2009 were \$405,819 and \$616,912, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The decrease of \$211,093 was due to a decrease in personnel costs and benefits due to a reduction of two employees, and a decrease in consulting expense due to a reduction of one engineering contractor.

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General and Administrative Expense

General and administrative expenses for the years ended December 31, 2010 and 2009 were \$1,163,479 and \$890,294, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The increase of \$273,185 was due to an increase in stock-based compensation of \$49,400, of which \$21,895 related to the accelerated vesting of stock options pursuant to the Share Exchange, and the remainder primarily relates to legal, accounting, and consulting expenses associated with the Share Exchange.

Gain on Debt Extinguishment

During the year ended December 31, 2010, we negotiated settlement agreements for liabilities totaling \$270,565, and paid \$71,164 to settle these liabilities. We recorded a gain on extinguishment of debt totaling \$199,401 for the year ended December 31, 2010. We had no such transactions in 2009.

Interest Expense

Interest expense for the year ended December 31, 2010 increased \$32,991, or 37.7%, compared to the year ended December 31, 2009. The increase is attributable to amortization of the note discounts recorded during 2010.

Liquidity and Capital Resources

We had negative working capital of \$1,258,895 and \$1,962,436, respectively, at December 31, 2010 and 2009. Our cash balances as of December 31, 2010 and 2009 were \$373,439 and \$11,003, respectively.

Cash Flows from Operating Activities

Our operating activities resulted in net cash used by operations of \$778,957 for the year ended December 31, 2010 compared to net cash used by operations of \$302,860 for the year ended December 31, 2009.

The net cash used by operating activities for the year ended December 31, 2010 reflects a net loss of \$1,229,583 offset by gain on debt extinguishment of \$199,401, stock-based compensation of \$156,785, change in fair market value of derivative liability of \$14,861, amortization of note discounts of \$50,789, and other minor factors. Changes in operating assets and liabilities included an increase in other assets of \$28,033, an increase in accounts payable of \$255,443, an increase in accrued interest of \$68,288, an increase in accrued and deferred compensation of \$147,359, a decrease in deferred revenues and customer deposits of \$94,386, an increase in other liabilities of \$65,880, and other minor factors.

The net cash used by operating activities for the year ended December 31, 2009 reflects a net loss of \$1,402,627 offset by bad debt expense of \$29,209, stock-based compensation of \$118,269, depreciation expense of \$22,156, increase in accounts receivable of \$8,323, increase in accounts payable of \$651,444, increase in accrued interest of \$67,247, increase in accrued and deferred compensation of \$118,095, an increase in deferred revenues and customer deposits of \$91,826, and other minor factors.

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Cash Flows from Financing Activities

Net cash provided by financing activities for 2010 and 2009 was \$1,141,393 and \$245,783, respectively.

In 2010, we received contributions from our former parent of \$249,897, and we received \$1,043,615 from the issuance of notes payable. We made payments on notes payable of \$128,615, and we incurred \$40,000 of expenses related to our financing efforts that we capitalized as deferred financing costs.

In 2009, we received contributions from our former parent of \$245,783.

Future Liquidity Needs

We will need to raise additional capital before we exhaust our current cash resources in order to continue to fund our operations. This raises substantial doubt about our ability to continue as a going concern. We commenced a private placement in late March 2011, and believe the process will continue until late April 2011. As of April 12, 2011, we have raised gross proceeds of \$445,000. We expect that the completion of this financing will allow us to move forward with our acquisition strategy for the near term and that the successful execution of our acquisition strategy will make it possible for us to raise additional funds before the end of 2011 and eventually generate sufficient cash flow from operations to reduce our dependence on outside capital sources.

Based on our resources at December 31, 2010, proceeds from the recent private placement transaction and our current plan of expenditures, and assuming we are not required to settle our \$1,000,000 of bridge notes payable during 2011, we believe that we will have sufficient capital to fund our operations for at least 12 months. Our actual cash requirements may vary materially from those now planned, however, because of a number of factors, including cash requirements associated with funding the purchase price of, and operations of, acquired businesses, the pursuit of development of product candidates, competitive and technical advances, costs of commercializing any potential product candidates, and costs of filing, prosecuting, defending and enforcing any patent claims and any other intellectual property rights. If we are unable to raise additional funds when needed, we may not be able to complete planned acquisitions or develop any product candidates, we could be required to delay, scale back or eliminate some or all of our research and development programs and we may need to wind down our operations altogether. Each of these alternatives would have a material adverse effect on our business.

To the extent that we raise additional funds by issuing equity or debt securities, our stockholders may experience additional significant dilution and such financing may involve restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or our product candidates, or grant licenses on terms that may not be favorable to us. These things may have a material adverse effect on our business.

Additionally, recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

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Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe the following accounting policies and estimates are most critical to aid in understanding and evaluating our reported financial results.

Revenue

Our “C4” Mobile Marketing and Customer Relationship Management (CRM) platform is a hosted solution. We generate revenue from licensing our software to clients in our software as a service (SaaS) model, per-message and per-minute transactional fees, and customized professional services. We recognize license fees over the period of the contract, service fees as the services are performed, and per-message or per-minute transaction revenue when the transaction takes place. We recognize revenue at the time that the services are rendered, the selling price is fixed, and collection is reasonably assured, provided no significant obligations remain. We consider authoritative guidance on multiple deliverables in determining whether each deliverable represents a separate unit of accounting.

Stock-based compensation

We account for stock-based compensation in accordance with authoritative guidance for stock-based compensation, which requires us to measure the cost of employee services received in exchange for equity incentive awards, including stock options, based on the grant date fair value of the award. The fair value is estimated using the Black-Scholes option pricing model. The resulting cost is recognized over the period during which the employee is required to provide services in exchange for the award, which is usually the vesting period. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the statements of operations based on the department to which the related employee reports. To the extent that we issue future stock incentive awards to employees, our stock-based compensation expense will be increased by the additional unearned compensation resulting from such additional issuances.

We account for equity instruments, including restricted stock or stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. Restricted stock issued to non-employees is accounted for at its estimated fair value upon vesting. We evaluate the assumptions used to value stock awards to non-employees on a periodic basis. If factors change and we employ different assumptions, including any significant change in the estimated fair value of common stock, stock-based compensation expense may differ significantly from what we have recorded historically. In addition, to the extent that we issue future stock incentive awards to non-employees, our stock-based compensation expense will be increased by the additional unearned compensation resulting from such additional issuances.

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Derivative Financial Instruments

We review the terms of convertible debt and equity instruments we issue to determine whether there are embedded derivative instruments, including an embedded conversion option, that is required to be bifurcated and accounted for separately as a derivative financial instrument. In circumstances where the convertible instrument contains more than one embedded derivative instrument, including the conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. Also, in connection with the sale of convertible debt and equity instruments, we may issue freestanding warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

Bifurcated embedded derivatives are initially recorded at fair value and are then revalued at each reporting date with changes in the fair value reported as non-operating income or expense. When the convertible debt or equity instruments contain embedded derivative instruments that are to be bifurcated and accounted for as liabilities, the total proceeds allocated to the convertible host instruments are first allocated to the fair value of all the bifurcated derivative instruments. The remaining proceeds, if any, are then allocated to the convertible instruments themselves, usually resulting in those instruments being recorded at a discount from their face value.

The discount from the face value of the convertible debt, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to interest expense, using the effective interest method.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Recent Accounting Pronouncements

Refer to Note 2, "Summary of Significant Accounting Policies," in the accompanying notes to the consolidated financial statements for a discussion of recent accounting pronouncements.

Item 8. Financial Statements.

Our financial statements and supplementary data required by this item are set forth at the pages indicated in Item 15(a)(1) and (a)(2), respectively, of this Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

On January 11, 2011, we dismissed our auditors, Seale and Beers, CPAs (the "Former Accountant"). Effective January 11, 2011, we engaged Mayer Hoffman McCann P.C. (the "New Accountant"), as our independent certified public accountant. Our decision to dismiss the Former Accountant and retain the New Accountant was approved by our board of directors on January 10, 2011.

The Former Accountant's report on the financial statements for the fiscal years ended September 30, 2010 and 2009 was not subject to an adverse or qualified opinion or a disclaimer of opinion and were not modified as to uncertainty, audit scope or accounting principles for the fiscal years then ended, except that the Former Accountant's report on the financial statements as of September 30, 2010 and 2009 contained explanatory language that substantial doubt existed about our ability to continue as a going concern due to our accumulated deficit and the absence of revenues since inception.

During the two most recent fiscal years and any subsequent interim period there were no reportable events as the term is described in Item 304(a)(1)(v) of Regulation S-K.

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During the two most recent fiscal years and any subsequent interim period there were no disagreements with the Former Accountant on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which, if not resolved to the satisfaction of the Former Accountant would have caused it to make reference to the subject matter of the disagreements in connection with its reports on these financial statements for those periods.

We did not consult with the New Accountant regarding the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and no written or oral advice was provided by the New Accountant that was a factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issues.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

As required by paragraph (b) of Rules 13a-15 or 15d-15 under the Exchange Act, our management, with the participation of our president (our principal executive officer) and our chief financial officer (our principal financial officer and principal accounting officer) evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report, being December 31, 2010.

Based on this evaluation, these officers concluded that, as of December 31, 2010, these disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities Exchange Commission. The conclusion that our disclosure controls and procedures were not effective was due to the presence of material weaknesses in internal control over financial reporting as identified below under the heading "Management's Report on Internal Control over Financial Reporting." Management anticipates that such disclosure controls and procedures will not be effective until the material weaknesses are remediated.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, an issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer.

Under the supervision of our president, being our principal executive officer, and our chief financial officer, being our principal financial officer and principal accounting officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2010 using the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, our management concluded our internal control over financial reporting was not effective as at December 31, 2010.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company's annual or interim financial statements will not be prevented or detected on a timely basis. In our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2010, we determined that there were control deficiencies that constituted material weaknesses which are indicative of many small companies with small staff, such as:

- (1) inadequate segregation of duties and effective risk assessment; and
- (2) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both generally accepted accounting principles in the United States and guidelines of the Securities and Exchange Commission.

These control deficiencies resulted in a reasonable possibility that a material misstatement of the annual or interim financial statements could not have been prevented or detected on a timely basis. As a result of the material weaknesses described above, we concluded that we did not maintain effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by COSO. Our management is currently evaluating remediation plans for the above deficiencies. During the period covered by this annual report on Form 10-K, we have not been able to remediate the weaknesses described above. However, we plan to take steps to enhance and improve the design of our internal control over financial reporting.

Changes in Internal Control

There was no change in our internal control over financial reporting identified in connection with the evaluation of our internal control over financial reporting described above that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers.

Directors and Executive Officers

The following table sets forth information concerning our executive officers and directors, including their ages, as of March 15, 2011:

Name	Age	Position
Dennis Becker	37	Chief Executive Officer and Director
Paul Meyer	63	Chief Financial Officer
David Souaid	37	Director
H. Fraser Clarke	35	Director
Doug Schneider	48	Director
John Harris	62	Director

Dennis Becker - President & Chief Executive Officer

Dennis Becker was appointed our Chief Executive Officer and a Director effective as of the closing date of the Share Exchange. Mr. Becker has been our President and Chief Executive Officer since September, 2007. He was a founder of Frontieric Corporation, a pioneer in providing complex call routing and merchant processing applications, where he was Chief Executive Officer from 2002 to 2005. Mr. Becker was also Chief Executive Officer of Bexel Technologies, which served solutions to large enterprise, from 1999 to 2001. Mr. Becker studied Computer Science at the University of Oregon and served in the United States Air Force.

Paul Meyer – Chief Financial Officer

Paul Meyer has been our Chief Financial Officer since December 2010. Since November 2008, he has been a Partner at Scigliano Group, LLC which provides consulting for emerging technologies and venture backed initiatives. The group's current clients include social media networks; wireless and internet gaming technologies and content providers and publishers. It provides management consulting, restructuring, interim management, capital raising and intellectual property monetization services.

Mr. Meyer was formerly President and Chief Operating Officer for Shuffle Master, Inc., a NASDAQ Global Select gaming supply company. During Mr. Meyer's five year tenure, Shuffle Master's revenues grew by over 225% to \$190 million, both organically and through acquisition, and international revenues increased from less than 9% to over 50% of total.

Prior to that, Mr. Meyer was President of the Integrated Solutions Division of Concurrent Computer Corporation, a leading NASDAQ simulation technology support provider. Mr. Meyer moved his division to develop a Linux-based real time operating system as demand for the company's proprietary Unix-based operating system was waning. Mr. Meyer also negotiated a change in his division's supply role in the Navy's Aegis program from technology licensor to hardware and software sub-contract supplier, generating over \$8 million in incremental gross margin over the succeeding three years.

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Mr. Meyer has also managed his own consulting ventures on two separate occasions, focusing on turnarounds, interim management, crisis management, restructuring and Chapter XI consulting. His clients in these ventures included a toy company; a location-based entertainment provider; a retail costume jewelry chain; a food packaging equipment supplier; a locomotive re-manufacturer and a video game accessory distributor.

Mr. Meyer has also held C-level positions with Virgin Interactive, Inc. and Viacom New Media, entertainment software developers and publishers, and has served as a public company Chief Financial Officer on two separate occasions.

Mr. Meyer has also served on a number of public and private company boards, and has chaired Compensation, Audit and Governance committees in this regard.

Mr. Meyer is a Vietnam veteran, and graduated Summa Cum Laude from C.W. Post College with a Bachelor of Science degree in Accounting.

David Souaid, Director

David Souaid was elected as one of our directors on the date of closing of the Share Exchange. He is currently the President of SterlingCard Payment Solutions and was previously the Senior Vice President, Sales and Marketing of Optimal Payments Inc., a credit card processing company, since 1999. He has also been a director of Sterling Payment Solutions and Mercantile Advance Corp. since 2008 respectively. He holds a B.A. in Political Science from Mount Allison University.

H. Fraser Clarke, Director

Herbert Fraser Clarke was elected as one of our directors on the date of closing of the Share Exchange. He has been the President and Chief Operating Officer of Herbal Magic, a Toronto based weight loss company, since 2009. From 2008 to 2009 he was Chief Financial Officer of NLRC, a Newfoundland based oil and gas refinery. From 2005 to 2008, he was the Chief Executive Officer of the Hair Club, a hair restoration company. Mr. Clarke holds a business degree from Memorial University. He is a chartered accountant and a chartered financial analyst. He currently serves on a number of boards including Europe's largest provider of hair loss solutions, a United States based mobile marketing company and a Canadian mid marketing leasing firm.

Doug Schneider, Director

Mr. Schneider has been a director since December 2010. From 2007 to 2010 Mr. Schneider was the CEO of Genea Energy, a clean tech company that provides an innovative and comprehensive SaaS based energy services platform for commercial office building portfolios. Prior thereto, he served in various consulting capacities for venture capital and internet firms. He served as President, Small and Medium Enterprise (SME) Hosting Business Unit for Verio, an NTT Communications Company from 1999 to 2004. In this role, he architected a highly profitable, \$125 million revenue premier global hosting company that met the needs of over one million SMEs in 140 countries. In an earlier role as President, Web Services, he built and managed Verio's distribution channels and service operations for its shared server, virtual server, and enterprise hosting product lines, which collectively represented \$160,000 million in revenues and was the world's largest domain-based hosting company at the time. In 1999, Mr. Schneider was selected by VAR Business as one of thirty leading visionary executives in the nation shaping the future of e-business for the channel and the industry. In 2002, Verio was recognized by Frost & Sullivan for market leadership in the SME web hosting market. Mr. Schneider was a key member of the Verio (NASDAQ: VRIO) executive team responsible for executing a combined roll-up and organic growth strategy of over 50 companies to create \$5.5 billion in realized shareholder value within 5 years through the successful \$126 million IPO and eventual sale of the company to NTT

Communications.

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In 1994 Mr. Schneider co-founded and served as President of a regional distribution company based in Colorado that performed customized equipment fulfillment services for wireless carriers OneComm and Nextel with their first generation of integrated cellular phone and two-way radio digital products. From 1991 to 1994, he served in marketing and sales roles with CellularOne in the San Francisco Bay Area and drove significant subscriber growth by leveraging indirect sales channels. Earlier in his career, Mr. Schneider worked for Pacific Gas & Electric Company as an engineer. Mr. Schneider received a Bachelor's degree in Mechanical Engineering from University of California, Davis and an M.B.A. from the Kellogg School of Management at Northwestern University. He also serves as an industry advisor to Pelion Venture Partners, a venture capital firm focused on the IT and medical device sectors.

John Harris, Director

Mr. Harris has been a director since January 2011. From 2006 to 2009, Mr. Harris was President and CEO of eTelecare Global Solutions; a business process outsourcing (“BPO”) company delivering technical support, sales, and customer care services to the Fortune 1000 market. In that capacity, he successfully led the company’s IPO, privatization and ultimate merger in 2009 that created a \$1 billion BPO services company. From 2003 to 2005, he was President and CEO of Seven World Wide, a \$400 million private equity backed Marketing Services BPO Company with operations in North America and the United Kingdom. During his tenure he restructured the company, disposed of non-core assets, right sized the cost structure, and shifted the focus to profitable growth areas. Mr. Harris led the sale of the company doubling shareholder value for the investors. Prior thereto, Mr. Harris spent 25 years Electronic Data Systems (EDS) in a number of senior executive positions and was a significant contributor to the growth of the company as it scaled from \$100 million dollars in revenue to approximately \$19 billion at the time of his departure in 1999. Mr. Harris graduated from the University of West Georgia with a BBA and MBA and is on the Board of Advisors to the Richardson School of Business. He has held board positions with a number of public and private telecommunications and technology services companies, and he currently sits on the boards of Premier Global Services, The Hackett Group and BancTec Corporation.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires our directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes of ownership of common stock and our other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2010, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements applicable to them, except that Forms 3 for Messrs. Becker, Clarke and Souaid as well as for CommerceTel Canada Corp. were filed late.

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Item 11. Executive Compensation.

The following table provides information regarding the compensation earned during the years ended December 31, 2010 and 2009 by our (i) Chairman and Chief Executive Officer, and (ii) Chief Financial Officer. We refer to these two individuals collectively as our "named executive officers."

Summary Compensation Table*

Name and Principal Position	Year	Salary	Option Awards	Total
Dennis Becker, CEO	2010	169,041	53,196	222,237
	2009	170,000	46,546	216,546
Paul Meyer, CFO	2010	1,250	4,063	5,313
	2009	0	0	0

*In accordance with the rules and regulations promulgated by the Securities and Exchange Commission, the table omits columns that are not applicable.

The "Option Award" expense for Mr. Becker and Mr. Meyer refer to CommerceTel Corporation options granted by our board of directors on December 24, 2010 pursuant to the Incentive Stock Option Plan approved by the board on the same date. "Option Award" expense for Mr. Becker also includes \$46,546 in 2009 and \$52,708 in 2010, respectively for options granted in our former parent, CommerceTel Canada. These options became fully vested in November 2010 pursuant to the Share Exchange transaction.

The following table presents the outstanding option awards held by each of our named executive officers as of December 31, 2010, including the value of the options awards.

Outstanding Equity Awards at December 31, 2010*

Name	Option Awards		Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Un-exercisable	Equity Incentive Plan Awards; Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested
Dennis Becker CEO	625,000	625,000	.32	12/24/2015	625,000	88,938
Paul Meyer CFO	93,750	93,750	.32	12/24/2015	93,750	15,713

*In accordance with the rules and regulations promulgated by the Securities and Exchange Commission, the table omits columns that are not applicable.

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The amounts reported in Option Awards column of the table above reflect the aggregate compensation costs for financial statement reporting purposes for fiscal 2009 and 2010 under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation (formerly referenced as Statement of Financial Accounting Standards No. 123(R)). These amounts do not reflect amounts paid to or realized by the executive officers for fiscal 2009 or 2010. Actual amounts earned for fiscal 2009 and 2010 are included in the Summary Compensation Table above. For information on the method and assumptions used to calculate the compensation costs, see Note 5 to our audited consolidated financial statements contained herein. The "Option Award" expense for Mr. Becker and Mr. Meyer refer to CommerceTel Corporation options granted by our board of directors on December 24, 2010 pursuant to the Incentive Stock Option Plan approved by the Board on the same date. "Option Award" expense for Mr. Becker also includes \$46,546 in 2009 and \$52,708 in 2010, respectively for options granted in our former parent, CommerceTel Canada. These options became fully vested in November 2010 pursuant to the Share Exchange transaction.

Employment Agreement

On January 11, 2011, we entered into an employment agreement with Dennis Becker. Under the terms of the agreement, Mr. Becker will serve as our President and Chief Executive Officer for an initial term of three years from December 24, 2010 (the "Effective Date"). Unless terminated no less than 90 days prior to the expiration date by either party, the agreement is renewed automatically for successive one year periods. Under the agreement, Mr. Becker is paid a base annual salary of \$120,000. The base salary is subject to an annual increase at the sole discretion our board of directors. In addition to regular annual increases, the base salary will be increased by \$30,000 (up to a cumulative maximum of \$60,000) for each acquisition of the stock or all or substantially all of the assets of a third party entity, or the formation of joint ventures resulting in operating cash flows minus capital expenditures and dividends of no less than \$25,000 during a three month period ending six months after the completion of each such acquisition or formation of such joint venture. In addition, his salary will be increased to \$225,000 in the event we complete a financing transaction of no less than \$3,000,000 and we complete one acquisition. The board may further award him, at its sole discretion, an annual bonus of up to 50% of his base salary and grant him stock options.

If the agreement is terminated by us without cause (as defined in the agreement) or the we notify Mr. Becker that we will not renew the agreement, we will be required to pay him a severance payment equal to six months of his base salary payable in regular intervals following such termination or expiration of the agreement.

The agreement includes non-compete, non-solicitation, intellectual property assignment and confidentiality provisions that are customary in our industry.

Non-Employee Director Compensation

We do not have a formal plan for compensation to non-employee directors.

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Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth as of April 3, 2011, certain information regarding the beneficial ownership of our common stock. The table sets forth the beneficial ownership of (i) each person who, to our knowledge, beneficially owns more than 5% of our outstanding shares of Common Stock; (ii) each of our nominees for director and executive officer; and (iii) all of our executive officers and nominees for director as a group. The number of shares owned includes all shares beneficially owned by such persons, as calculated in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Unless otherwise indicated, the address of each shareholder is c/o the Company, 8929 Aero Drive, Suite E, San Diego, CA 92123.

Name of Beneficial Owner	Number of Shares	Percentage(1)
CommerceTel Canada Corporation 1 First Canadian Place 100 King Street West Toronto, ON M5X 1B2	7,267,972	