IMMEDIATEK INC
Form 10-Q
August 14, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

Commission file number: 000-26073

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

| | |
|---|---|
| Nevada | 86-0881193 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| 3301 Airport Freeway, Suite 200<br>Bedford, Texas | 76021 |
| (Address of principal executive offices) | (Zip code) |

(888) 661-6565
(Registrant's telephone number, including area code)

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

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

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

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.

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company þ |

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

As of August 14, 2014, the issuer had 15,865,641 shares of common stock outstanding.

IMMEDIATEK, INC.

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## INTRODUCTION

Unless the context otherwise indicates, all references in this Quarterly Report on Form 10-Q to the "Company," "Immediatek," "Officeware," "DiscLive," "IMKI Ventures," "we," "us," "our" or "ours" or similar words are to Immediatek, I its direct, wholly-owned subsidiaries, Officeware Corporation, DiscLive, Inc. or IMKI Ventures, Inc. Accordingly, there are no separate financial statements for Officeware Corporation, DiscLive, Inc. or IMKI Ventures, Inc.

## TRADEMARKS AND SERVICE MARKS

This Quarterly Report on Form 10-Q contains registered trademarks and service marks owned or licensed by entities and persons other than us.

## MARKET AND INDUSTRY DATA AND FORECASTS

Market and industry data and other statistical information and forecasts used throughout this Quarterly Report on Form 10-Q are based on independent industry publications, government publications and reports by market research firms or other published independent sources. Some data also is based on our good faith estimates, which are derived from our review of internal surveys, as well as independent sources. Forecasts are particularly likely to be inaccurate, especially over long periods of time.

## FORWARD–LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the materials incorporated by reference into this Quarterly Report on Form 10-Q include "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified as such because the context of the statement includes words such as "may," "estimate," "intend," "plan," "believe," "expect," "ho "anticipate," "will," "should" or other similar expressions. Similarly, statements in this Quarterly Report on Form 10-Q that describe our objectives, plans or goals also are forward-looking statements. These statements include those made on matters such as our financial condition, litigation, accounting matters, our business, our efforts to grow our business and increase efficiencies, our efforts to use our resources judiciously, our efforts to implement new financial software, our liquidity and sources of funding, our capital expenditures and our exploration and evaluation of a broad range of possible strategic alternatives. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report. We assume no obligation to update any forward-looking statements. Certain factors that could cause actual results to differ include, among others:

- our inability to continue as a going concern;
- our history of losses, which may continue;
- our inability to utilize the funds received in a manner that is accretive;
- our inability to generate sufficient funds from operating activities to fund operations;
- difficulties in developing and marketing new products;
- our inability to prevent or minimize interruptions in our service and interruptions to customer data access, and any related impact on our reputation;

- our inability to retain existing recurring customers and attract new recurring customers;
- our inability to execute our growth and acquisition strategy;

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- our dependence on third-party contractors, platforms, software, websites, and technologies used in the creation and maintenance of the FilesAnywhere service;
- our exploration and evaluation of a broad range of possible strategic alternatives; and
- general economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the Securities and Exchange Commission, or SEC, on March 31, 2014.

In addition, these forward-looking statements are necessarily dependent upon assumptions and estimates that may prove to be incorrect. Accordingly, while we believe that the plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these plans, intentions or expectations will be achieved. The forward-looking statements included in this report, and all subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf, are expressly qualified in their entirety by the risk factors and cautionary statements discussed in our filings under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. We undertake no obligation to update any forward-looking statements to reflect future events or circumstances.

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PART I – UNAUDITED FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements.

Immediatek, Inc.
Unaudited Consolidated Balance Sheets

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Current assets: | | |
| Cash | $ 143,135 | $ 324,171 |
| Accounts receivable, net | 394,200 | 148,979 |
| Prepaid expenses and other current assets | 92,543 | 83,303 |
| Total current assets | 629,878 | 556,453 |
| | | |
| Fixed assets, net | 606,267 | 695,901 |
| Intangible assets, net | 628,364 | 755,662 |
| Goodwill | 766,532 | 766,532 |
| Other assets | 26,442 | 20,871 |
| | | |
| Total Assets | $ 2,657,483 | $ 2,795,419 |
| | | |
| Current liabilities: | | |
| Accounts payable | $ 297,374 | $ 216,059 |
| Accrued liabilities | 128,072 | 135,791 |
| Deferred revenue | 912,200 | 662,804 |
| Total liabilities | 1,337,646 | 1,014,654 |
| | | |
| Preferred Stock: | | |
| Series A convertible preferred stock (conditionally redeemable); $0.001 par value 4,392,286 authorized, issued and outstanding; redemption/liquidation preference of $3,000,000 | 3,000,000 | 3,000,000 |
| Series B convertible preferred stock (conditionally redeemable); $0.001 par value 69,726 authorized, issued and outstanding; redemption/liquidation preference of $500,000 | 500,000 | 500,000 |
| Stockholders' deficit: | | |
| Common stock, $0.001 par value, 500,000,000 shares authorized, 15,865,641 shares issued and outstanding | 15,865 | 15,865 |
| Additional paid in capital | 5,376,772 | 5,355,772 |
| Accumulated deficit | (7,572,800) | (7,090,872) |
| Total stockholders' deficit | (2,180,163) | (1,719,235) |
| | | |
| Total Liabilities, Preferred Stock and Stockholders' Deficit | $ 2,657,483 | $ 2,795,419 |

See accompanying notes to unaudited consolidated financial statements.

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Immediatek, Inc.
Unaudited Consolidated Statements of Operations

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ 824,119 | $ 783,651 | $ 1,571,996 | $ 1,600,613 |
| Cost of revenues | (280,764 ) | (376,809 ) | (581,129 ) | (744,519 ) |
| Gross margin | 543,355 | 406,842 | 990,867 | 856,094 |
| Expenses: | | | | |
| Research and development | 190,317 | 223,562 | 372,710 | 440,022 |
| Sales and marketing | 176,681 | 300,161 | 379,181 | 533,080 |
| General and administrative | 267,289 | 265,965 | 533,376 | 477,988 |
| Non-cash consulting expense-related party | 10,500 | 10,500 | 21,000 | 21,000 |
| Depreciation and amortization | 80,377 | 81,715 | 161,165 | 163,252 |
| Total expenses | 725,164 | 881,903 | 1,467,432 | 1,635,342 |
| Net operating loss | (181,809 ) | (475,061 ) | (476,565 ) | (779,248 ) |
| Other income: | | | | |
| Litigation settlement income | - | 633,334 | - | 633,334 |
| Other income | 796 | - | 796 | - |
| Interest income | 41 | 170 | 133 | 452 |
| Total other income | 837 | 633,504 | 929 | 633,786 |
| Income Tax Expense | 2,692 | - | 6,292 | - |
| Net Income (loss) | $ (183,664 ) | $ 158,443 | $ (481,928 ) | $ (145,462 ) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 15,865,641 | 15,865,641 | 15,865,641 | 15,865,641 |
| Fully Diluted | - | 30,660,640 | - | - |
| Income (loss) per common share attributable to common stockholders: | | | | |
| Basic | $ (0.01 ) | $ 0.01 | $ (0.03 ) | $ (0.01 ) |
| Fully diluted | $ (0.01 ) | $ 0.01 | $ (0.03 ) | $ (0.01 ) |

See accompanying notes to unaudited consolidated financial statements.

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Immediatek, Inc.
Unaudited Consolidated Statements of Cash Flow

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities | | |
| Net loss | $ (481,928) | $ (145,462) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 247,406 | 238,329 |
| Non-cash consulting fees - related party | 21,000 | 21,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (245,221) | (63,749) |
| Prepaid expenses and other assets | (14,811) | (8,640) |
| Accounts payable | 81,315 | 91,013 |
| Accrued liabilities | (7,719) | 18,924 |
| Deferred revenue | 249,396 | 159,466 |
| Net cash provided by/(used in) operating activities | (150,562) | 310,881 |
| | | |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (30,474) | (200,685) |
| Net cash used in investing activities | (30,474) | (200,685) |
| | | |
| Net decrease in cash | (181,036) | 110,196 |
| Cash at the beginning of the period | 324,171 | 712,458 |
| Cash at the end of the period | $ 143,135 | $ 822,654 |
| | | |
| Income taxes paid | $ 12,500 | $ 15,338 |

See accompanying notes to unaudited consolidated financial statements.

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IMMEDIATEK, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: Officeware Corporation ("Officeware"), a direct, wholly-owned subsidiary of Immediatek, Inc. ("Immediatek"), provides online back-up, file storage and other web-based services for individuals, businesses and governmental organizations. Officeware offers three primary services. First, Officeware operates the website FilesAnywhere.com, primarily designed for individuals and small businesses to allow them to establish a self-service account, enabling them to, among other things, store files on Officeware servers, share and collaborate on documents with other people online, and backup their computers to FilesAnywhere cloud storage. Second, for larger business users, Officeware offers two customized products, called the FilesAnywhere Professional and Enterprise Plans. These corporate offerings are designed to meet the specific requirements of each business customer or organization. The Professional and Enterprise Plan products provide flexible cloud storage and unlimited scalability for users, groups and internet applications, along with client-specific branding and web interfaces, customer data interfaces, and tailored security for mixed corporate environments. Third, Officeware also provides specialized information technology services related to the development of web based databases and data storage on a contract basis for clients.

Officeware's operations are primarily based in Bedford, Texas. Additionally, Officeware has one employee and several consultants performing software maintenance and research and development in India. The cost of the India operations was approximately $88,226 and $177,238 for the three and six months ended June 30, 2014, respectively, and was approximately $143,977 and $284,052 for the three and six months ended June 30, 2013, respectively, and is included in research and development expenses in Immediatek's consolidated financial statements.

Basis of Presentation: The accompanying unaudited consolidated financial statements of Immediatek have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and formatted disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles ("GAAP") have been omitted pursuant to SEC rules and regulations. These consolidated financial statements include the accounts of Immediatek's wholly-owned subsidiaries, Officeware, DiscLive, Inc. and IMKI Ventures, Inc. (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements. The Company follows the Financial Accounting Standard Board's Accounting Standards Codification (the "Codification" or "ASC"). The Codification is the single source of authoritative accounting principles applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP.

The Company's consolidated balance sheet at June 30, 2014 and consolidated statements of operations for the three and six months ended June 30, 2014 and 2013 and consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 are unaudited. In the opinion of management, these financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the Company's financial position, results of operations and cash flows. These adjustments were of a normal, recurring nature. The results of operations for the periods presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for the entire year. Additional information is contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the SEC on March 31, 2014 and should be read in conjunction with this Quarterly Report on Form 10-Q.

Net Loss per Share: For the three and six months ended June 30, 2014 and the six months ended June 30, 2013, Series A and Series B Convertible Preferred Stock convertible into 14,794,999 shares of common stock were not included in the computation of diluted loss per share, as the effect of their inclusion would be anti-dilutive. For the three months ended June 30, 2013, the weighted average number of shares of common stock outstanding was 30,660,640 for calculating diluted income per share.

Comprehensive Loss: For all periods presented, comprehensive loss is equal to net loss.

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Liquidity: Management believes that through current and planned operations, the company should be able to meet all of its obligations. If we need additional capital in the future, it may not be available on favorable terms, or at all. We may require, or elect to access, additional capital from equity or debt financing in the future to fund our operations, or respond to competitive pressures or strategic opportunities. We may not be able to secure additional financing on favorable terms, or at all. The terms of additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our Company, and any new securities we issue could have rights, preferences or privileges senior to those of existing or future holders of our common stock. If we are unable to obtain necessary financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited.

NOTE 2 – RELATED PARTY TRANSACTIONS

Management Services Agreement. On December 31, 2009, the Company entered into a Management Services Agreement with Radical Ventures, L.L.C., an affiliate of Radical Holdings LP, our largest shareholder. Pursuant to this Management Services Agreement, personnel of Radical Ventures, L.L.C. provide certain management services to the Company, including, among others, legal, financial, marketing and technology services. These services are provided to us at a cost of $3,500 per month; however, the Company is not required to pay these fees or reimburse expenses and, accordingly, accounts for these costs of services and expenses as deemed contributions to the Company. This agreement was amended on March 17, 2011, to be effective as of December 31, 2010.

This agreement may be terminated upon 30 days' written notice by Radical Ventures, L.L.C. for any reason or by the Company in the event of Radical Ventures, L.L.C.'s gross negligence. The Company has also agreed to indemnify and hold harmless Radical Ventures, L.L.C. for losses it incurs as a result of its performance of these services, except for losses resulting from Radical Ventures, L.L.C.'s gross negligence or willful misconduct. Further, the Company has limited Radical Ventures, L.L.C.'s maximum aggregate liability for damages under this agreement to the amounts deemed contributed to the Company by virtue of this agreement during the twelve months prior to the cause of action.

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

Overview

The following Management's Discussion and Analysis, or MD&A, is intended to aid the reader in understanding us, our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the notes accompanying those financial statements, which are included in this Quarterly Report on Form 10-Q. MD&A includes the following sections:

- Our Business – a general description of our business, our objectives, our areas of focus and the challenges and risks of our business.

- Critical Accounting Policies and Estimates – a discussion of accounting policies that require critical judgments and estimates.

- Operations Review – an analysis of our consolidated results of operations for the periods presented in this Quarterly Report on Form 10-Q.

- Liquidity, Capital Resources and Financial Position – an analysis of our cash flows and debt and contractual obligations; and an overview of our financial condition.

Our Business

General

Immediatek is a Nevada corporation. Our principal executive offices are located at 3301 Airport Freeway, Suite 200, Bedford, Texas 76021, and our telephone number is (888) 661-6565. On April 1, 2010, Immediatek acquired Officeware by merger. As a result of the merger, Immediatek became the sole shareholder of Officeware and Officeware shareholders received 12,264,256 shares of Immediatek common stock for all of the outstanding shares of stock of Officeware. Radical Investments LP, an affiliate of Radical Holdings LP, owned 24.6% of the Officeware common stock at the time of the merger. Radical Holdings LP owns all of the outstanding shares of the Company's Series A and Series B Convertible Preferred Stock. In addition, in connection with the merger, Immediatek issued and sold, and Radical Holdings LP, Darin Divinia, Dawn Divinia, Robert Hart, Kimberly Hart and Martin Woodall collectively purchased, 3,066,064 shares of Immediatek common stock for an aggregate purchase price of $1.0 million, or approximately $0.33 per share. Due to the merger, it was determined that the Company ceased to be in the development stage as of April 1, 2010.

Currently, the Company primarily operates in one business segment: e-commerce. Our services and products are primarily offered through Officeware. Officeware provides online back-up, file storage and other web-based services for individuals, businesses and governmental organizations. Officeware offers three primary services. First, Officeware operates the website FilesAnywhere.com, primarily designed for individuals and small businesses to allow them to establish a self-service account, enabling them to, among other things, store files on Officeware servers, share and collaborate on documents with other people online, and backup their computers to FilesAnywhere cloud storage. Second, for larger business users, Officeware offers two customized products, called the FilesAnywhere Professional and Enterprise Plans. These corporate offerings are designed to meet the specific requirements of each business customer or organization. The Professional and Enterprise Plan products provide flexible cloud storage and unlimited scalability for users, groups and internet applications, along with client-specific branding and web interfaces, customer data interfaces, and tailored security for mixed corporate environments. Third, Officeware also provides specialized information technology services related to the development of web based databases and data storage on a contract basis for clients.

Officeware's operations are primarily based in Bedford, Texas.  Additionally, Officeware has one employee and several consultants performing software maintenance and research and development in India.

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As a result of services provided to larger business users, our business can depend on one or a few major customers, which could potentially expose the Company to concentration of credit risk. Our revenue and receivables are comprised principally of amounts due from customers throughout the United States.

History of Operating Losses

The following tables present our net income (loss) and cash provided by or used in operating activities for the periods indicated.

| | For the Three Months Ended June 30, 2014 (unaudited) | 2013 (unaudited) |
|---|---|---|
| Net income (loss) | $ (183,664) | $ 158,443 |
| Net cash provided by (used in) operating activities | $ (78,851) | $ 404,440 |

| | For the Six Months Ended June 30, 2014 (unaudited) | 2013 (unaudited) |
|---|---|---|
| Net loss | $ (481,928) | $ (145,462) |
| Net cash provided by (used in) operating activities | $ (150,562) | $ 310,881 |

Our existence and operations are dependent upon our ability to generate sufficient funds from operations to fund operating activities.

We funded our operations during the three and six months ended June 30, 2014, from the revenue generated by Officeware and the remaining proceeds from the settlement of a lawsuit settled in the second quarter of 2013. With the planned operating expense reductions in place for 2014, management estimates that the Company will generate sufficient funds from operations to fund future operating activities, though the Company anticipates that any excess funds generated would be reinvested into the Company through our increased investment in infrastructure, marketing, sales operations, capital expenditures and research and development.

Our Objectives and Areas of Focus

Officeware – Increase Users. We are focused on increasing the number of users of the various online back-up, file storage and other web-based services for individuals, businesses and governmental organizations offered through Officeware. We may pursue aggressive advertising campaigns or other promotions primarily aimed at new users, along with utilizing third party value added resellers.

Acquisitions. We may identify and pursue potential acquisition candidates in order to support our strategy of growing and diversifying our business through selective acquisitions. No assurances can be given, however, that we will be able to successfully identify any potential targets or, when potential targets are identified, consummate their acquisition.

Strategic Alternatives. In February 2014, the Company retained GuideCap Partners LLC as its financial advisor to assist it in exploring and evaluating a broad range of strategic alternatives. No decision has been made to enter into any transaction at this time, and there can be no assurances that this evaluation will result in any specific transactions.

Challenges and Risks

Operating in the e-commerce area provides unique opportunities; however, challenges and risks accompany those opportunities. Our management has identified the following material challenges and risks that will require substantive attention from our management (see “Liquidity and Capital Resources and Financial Position—Liquidity” beginning on page 13).

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Utilizing Funds on Hand in a Manner that is Accretive. If we do not manage our assets aggressively and apply available capital judiciously, we may not generate sufficient cash from our operating activities to fund our operations going forward, which would require us to seek additional funding in the future.

Growing Users. In order to be successful with the products and services offered through Officeware, we will be required to attract new customers and deepen our current customer relationships. Our largest clients require customized solutions, which in turn requires us to anticipate their needs.

Competition. There are companies in this industry that have far more financial resources and a larger market share than us. In order to compete with these companies, we will be required to be innovative and create more attractive functions and features while maintaining a competitive price structure.

Additionally, see “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the SEC on March 31, 2014.

Challenges and risks, including those described above, if not properly addressed or managed, may have a material adverse effect on our business. Our management, however, is endeavoring to properly manage and address these challenges and risks.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP in the United States of America, which requires management to make estimates, judgments and assumptions with respect to the amounts reported in the consolidated financial statements and in the notes accompanying those financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles, however, have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. We believe that the most critical accounting policies and estimates relate to the following:

- Convertible Securities. From time to time, we have issued, and in the future may issue, convertible securities with beneficial conversion features. We account for these convertible securities in accordance with ASC Topic 470, Beneficial Conversion Feature.

- Revenue Recognition. Officeware generates revenue primarily from monthly fees for the services and products that it offers. While revenues for Officeware’s FilesAnywhere.com product are often received in advance of providing the applicable service, the Company defers recognizing such revenues until the service has been performed. Revenues for Officeware’s custom products for large enterprises are often received after such services are provided. The Company recognizes such revenues when service has been provided and collection is reasonably assured.

- Goodwill. We assess goodwill for potential impairments at the end of each fiscal year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating goodwill for impairment, we perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to be recognized, if any. In the first step of the review process, we compare the estimated fair value of the reporting unit with its carrying value. If the estimated fair value of the reporting unit exceeds its carrying amount, no further analysis is needed. If the estimated fair value of the reporting unit is less than its carrying amount, we proceed to the second step of the review process to calculate the implied fair value of the reporting unit goodwill in order to determine whether any impairment is required. We calculate the implied fair value of the reporting unit goodwill by allocating the estimated fair value of the reporting unit to all of the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination.

If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss for that excess amount. In allocating the estimated fair value of the reporting unit to all of the assets and liabilities of the reporting unit, we use industry and market data, as well as knowledge of the industry and our past experiences. We base our calculation of the estimated fair value of a reporting unit on the income approach. For the income approach, we use internally developed discounted cash flow models that include, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; and estimated discount rates. We base these assumptions on our historical data and experience, and our expectations.

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While our estimates and assumptions are based upon our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from those estimates and assumptions.

Operations Review

The Three Months Ended June 30, 2014 Compared to
the Three Months Ended June 30, 2013

| | For the Three Months Ended June 30, | | 2014 vs 2013 | |
|---|---|---|---|---|
| | 2014 | 2013 | Fav/(Unfav) Variance | % Variance |
| Revenues | $ 824,119 | $ 783,651 | $ 40,468 | 5.16 % |
| Cost of revenues | (280,764 ) | (376,809 ) | 96,045 | 25.49 % |
| Gross margin | 543,355 | 406,842 | 136,513 | 33.55 % |
| Expenses: | | | | |
| Research and development | 190,317 | 223,562 | 33,245 | 14.87 % |
| Sales and marketing | 176,681 | 300,161 | 123,480 | 41.14 % |
| General and administrative | 267,289 | 265,965 | (1,324 ) | (0.50 %) |
| Non-cash consulting expense-related party | 10,500 | 10,500 | - | - |
| Depreciation and amortization | 80,377 | 81,715 | 1,338 | 1.64 % |
| Total expenses | 725,164 | 881,903 | 156,739 | 17.77 % |
| Net operating income (loss) | (181,809 ) | (475,061 ) | 293,252 | 61.73 % |
| Other income: | | | | |
| Litigation settlement income | - | 633,334 | (633,334 ) | (100.00 %) |
| Other income | 796 | - | 796 | 100.00 % |
| Interest income | 41 | 170 | (129 ) | (75.88 %) |
| Total other income | 837 | 633,504 | (632,667 ) | (99.87 %) |
| Income Tax Expense | 2,692 | - | (2,692 ) | - |
| Net income (loss) | $ (183,664 ) | $ 158,443 | $ (342,107 ) | (215.92 %) |

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The Six Months Ended June 30, 2014 Compared to
the Six Months Ended June 30, 2013

| | For the Six Months Ended June 30, | | 2014 vs 2013 | |
|---|---|---|---|---|
| | 2014 | 2013 | Fav/(Unfav) Variance | % Variance |
| Revenues | $ 1,571,996 | $ 1,600,613 | $ (28,617 ) | (1.79 %) |
| Cost of revenues | (581,129 ) | (744,519 ) | 163,390 | 21.95 % |
| Gross margin | 990,867 | 856,094 | 134,773 | 15.74 % |
| Expenses: | | | | |
| Research and development | 372,710 | 440,022 | 67,312 | 15.30 % |
| Sales and marketing | 379,181 | 533,080 | 153,899 | 28.87 % |
| General and administrative | 533,376 | 477,988 | (55,388 ) | (11.59 %) |
| Non-cash consulting expense-related party | 21,000 | 21,000 | - | - |
| Depreciation and amortization | 161,165 | 163,252 | 2,087 | 1.28 % |
| Total expenses | 1,467,432 | 1,635,342 | 167,910 | 10.27 % |
| Net operating loss | (476,565 ) | (779,248 ) | 302,683 | 38.84 % |
| Other income: | | | | |
| Litigation settlement income | - | 633,334 | (633,334 ) | (100.00 %) |
| Other income | 796 | - | 796 | 100.00 % |
| Interest income | 133 | 452 | (319 ) | (70.58 %) |
| Total other income | 929 | 633,786 | (632,857 ) | (99.85 %) |
| Income Tax Expense | 6,292 | - | (6,292 ) | - |
| Net loss | $ (481,928 ) | $ (145,462 ) | $ (336,466 ) | (231.31 %) |

Revenues and Cost of Revenues

Revenues and Cost of Revenues. Revenues have increased for the three months ending June 30, 2014 compared to the three month period ending June 30, 2013 due to the recognition of set-up fees from a Software Reseller and License Agreement that was entered into on June 24, 2014, with Konica Minolta Business Solutions U.S.A., Inc., referred to as the Konica Minolta contract. For the six month period ended June 30, 2014 compared to the six month period ended June 30, 2013, revenues decreased approximately 1.8%. This decrease is due to 29% attrition in our consumer business that was partially offset by an 8% increase in our corporate business. To combat pricing pressures we are experiencing on our consumer business from the competition, we are actively working on significant enhancements to our FilesAnywhere product that we expect to result in increased corporate users and, consequently, increased market share. In an effort to become more competitive in the consumer market, we have also made several hardware enhancements to improve our storage capabilities, lowered our pricing and offered additional free storage. Despite these actions, however, we have continued to experience a decrease in our consumer customer base. Many factors, including our advertising, customer acquisition and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Certain of our competitors offer, or may in the future offer, lower-priced or free products or services that compete with our solutions. There can be no assurance that we will not be forced to engage in price-cutting initiatives, or to increase our advertising and other expenses to attract and retain customers in response to competitive pressures, either of which could have a material adverse effect on our revenue and operating results.

Cost of revenues decreased, as we have implemented the planned expense reductions that have brought our gross margin back in-line with the current level of sales. The decrease of approximately 25% over the three month period ending June 30, 2013 was attributed to the completion of the consolidation of our data centers and a related staffing adjustment due to the consolidation. The decrease of approximately 22% over the six month period ending June 30, 2013 was attributed to the same factors discussed above. We are continuing to improve our business platform that will allow us to translate growth in revenues directly into growth in profit margins.

Research and Development. Research and development expenses decreased approximately 15% for the three month period ended June 30, 2014, as compared to the three month period ended June 30, 2013. This decrease was attributed to a reduction in the number of contract developers being utilized in India. Research and development expenses decreased approximately 15% for the six month period ended June 30, 2014, as compared to the six month period ended June 30, 2013. This was due to the same factors discussed above.

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Sales and Marketing. Sales and Marketing expenses decreased 41% for the three months ended June 30, 2014 compared to the same three month period last year, as we have reduced our internal marketing department and outsourced the marketing function to a third party. We have also reduced our internet based marketing expenses as we redesign our marketing campaign, which we anticipate will roll out in the third quarter. Sales and Marketing expenses decreased 29% for the six months ended June 30, 2014 compared to the same six month period last year, due to the same factors discussed above.

General and Administrative Expense. General and administrative expense remained relatively flat for the three month period ended June 30, 2014, as compared to the three month period ended June 30, 2013. General and administrative expense increased for the six month period ended June 30, 2014, as compared to the six month period ended June 30, 2013. The difference was primarily attributed to an increase in audit, tax and legal professional fees.

Depreciation and Amortization. Depreciation and Amortization expense did not have a material change on a three or six month comparison basis.

Net Operating Loss and Net Income (Loss)

Net Operating Loss. Net operating loss was $181,809 for the three months ended June 30, 2014, which is a decrease of $293,252, or 62%, from $475,061 for the corresponding period in 2013. Net operating loss was $476,565 for the six months ended June 30, 2014, which is a decrease of $302,683, or 39%, from $779,248 for the corresponding period in 2013. These decreases in net operating loss are attributed to revenue generated from the Konica Minolta contract and planned expense reductions in both cost of sales and research and development. We have also reduced internet marketing, which has resulted in a decrease in marketing expenses in 2014 from 2013 as we redesign our marketing campaign. We hope that with our increased investments in infrastructure, along with a new pricing structure, we will be able to regain the market share on our consumer business that has been lost due to downward pricing pressures from our competitors. We also hope that the new product enhancements will drive increased corporate sales.

Net Income (Loss). Net loss was $183,664 for the three months ended June 30, 2014 compared to $158,443 in net income for the same period of 2013. This decrease was attributed to the lack of income from a litigation settlement that was recorded in 2013. Net loss was $481,928 for the six months ended June 30, 2014 compared to $145,462 for the same period of 2013. This increase was attributed to the same factor as discussed above.

Liquidity and Capital Resources and Financial Position

General

We funded our operations during the three and six months ended June 30, 2014, from the revenue generated from Officeware's operations and the remaining proceeds from the settlement of a lawsuit settled in the second quarter of 2013. As of June 30, 2014, we had $143,135 of cash, which management anticipates will sustain our operations. With the planned operating expense reductions in place for 2014, management anticipates that the operating cash flows of the Company will be positive for the fiscal year ending December 31, 2014. However, no assurances can be given that we will ever achieve profitability. If we need to seek additional funds, our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. No assurances can be given that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution.

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Our goal is to increase the products and services offered through Officeware, which we hope will generate sufficient revenue to support our operations.  No assurances, however, can be given that these lines of business will generate sufficient operating funds to support our operating activities.  In addition, we continue to explore whether other companies may have interest in utilizing our technology to deliver their content and allow for interactivity with their customers or users across these various platforms.

The demand for our Officeware consumer products and services is still in decline due to the continued competitive pricing strategies employed by our competitors.  We expected to reverse this trend after we implemented our new storage platform in the second quarter of 2013.  This allowed us to become more price competitive with our base consumer product.  However, we have seen continued downward pricing pressure from our competitors on the consumer side of the business, which has caused a continued decrease in consumer revenues.  To partially offset this decline in consumer revenue, we have seen an 8% increase in our corporate revenue due to the increased investment in our product features.  We introduced significant enhancements to our product in the fourth quarter of 2013 and two additional features in the second quarter of 2014, which we hope will increase the marketability of our corporate product.

We may also pursue various acquisition targets that could provide us with operating funds to support our activities. In the event that we acquire a target, depending on the nature of that target, we may require additional funds to consummate the acquisition or support our operations going forward. No assurances, however, can be given that we will be able to identify a potential target, consummate the acquisition of the target and, if consummated, integrate the target company and realize funds from operations.

In February 2014, the Company retained GuideCap Partners LLC as its financial advisor to assist it in exploring and evaluating a broad range of strategic alternatives.  No decision has been made to enter into any transaction at this time, and there can be no assurances that this evaluation will result in any specific transactions.

Operating Activities.  Cash used in operations was $78,851in the three months ended June 30, 2014, as compared to cash provided by operations of $404,440 for the three months ended June 30, 2013. The increase in cash used in operations was attributed to an increase in net loss and in accounts receivable that was collected shortly after the end of the second quarter of 2014.   Cash used in operations was $150,562 in the six months ended June 30, 2014, as compared to cash provided by operations of $310,881 for the six months ended June 30, 2013. The decrease in cash used in operations was attributed to an increase in net loss over 2013 and a significant increase in accounts receivable.  The aged accounts receivable balance has been subsequently collected but still remains higher than 2013 due to an invoice for set-up fees under the Konica Minolta contract that was billed at the end of the second quarter of 2014.

Investing Activities.  Cash used for investing activities was $3,431 and $120,684 for the three months ended June 30, 2014 and June 30, 2013, respectively.  The cash outlay was for infrastructure and storage equipment upgrades.  Cash used for investing activities was $30,474 and $200,685 for the six months ended June 30, 2014 and June 30, 2013, respectively.  The cash outlay was for infrastructure and storage equipment upgrades.

Our material commitments for capital expenditures as of June 30, 2014 are $2,369.  We intend to use funds generated by the operation of Officeware to meet these commitments.

Liquidity

We believe that the funds generated by the operation of Officeware, along with the remaining proceeds from a lawsuit settled in the second quarter of 2013, will provide us with the necessary funds to operate our business.  With the planned operating expense reductions in place for 2014 and the various sales and marketing plans that have been undertaken, we believe there will be an increase in funds generated from operating activities, although no assurances can be given that those plans and measures will be successful.

If we determine that we need additional capital in the future, it may not be available on favorable terms, or at all, which could place limits on our financial and operational flexibility. Furthermore, if we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our Company, and any new securities we issue could have rights, preferences or privileges senior to those of existing or future holders of our common stock. An inability to obtain necessary financing on terms satisfactory to us, if and when we require it, could negatively affect our ability to grow or support our business and to respond to business challenges could be significantly limited.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Our chief executive officer and president (our principal executive officer) and our chief financial officer (our principal financial officer) are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act) for us. Based on the evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) required by Exchange Act Rules 13a-15(b) or 15d-15(b), our principal executive officer and our principal financial officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in internal controls. There were no changes in our internal controls over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company is involved from time to time in claims, proceedings and litigation. Please refer to “Item 3. Legal Proceedings” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the Securities and Exchange Commission, or SEC, on March 31, 2014.

From time to time we may become subject to additional proceedings, lawsuits and other claims in the ordinary course of business, including proceedings related to our services, applications and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

### Item 6. Exhibits.

The following exhibits are filed in accordance with the provisions of Item 601 of Regulation S-K.

| Exhibit Number | Description of Exhibit |
| --- | --- |
| 3.1 | Amended and Restated Articles of Incorporation of the Registrant, dated as of June 2, 2006 and filed with the Secretary of State of the State of Nevada on June 5, 2006 (filed as Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference). |
| 3.2 | Bylaws of the Registrant (filed as Exhibit 3.2 to the Registrant’s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference). |
| 4.1 | Form of common stock certificate of the Registrant (filed as Exhibit 4.1 to the Registrant’s Annual Report on Form 10-KSB for year ended December 31, 2005 (filed on May 11, 2006) and incorporated herein by reference). |
| 4.2 | Amended and Restated Certificate of Designation, Rights and Preferences of Series A Convertible Preferred Stock of the Registrant, dated as of October 13, 2009 and filed with the Secretary of State of the State of Nevada on October 15, 2009 (filed as Exhibit 4.1 to the Registrant’s Form 8-K (filed on October 19, 2009) and incorporated herein by reference). |
| 4.3 | Form of stock certificate for Series A Convertible Preferred Stock (filed as Exhibit 4.8 to the Registrant’s Quarterly Report on Form 10-QSB for quarter ended March 31, 2006 (filed on June 26, 2006) and incorporated herein by reference). |
| 4.4 | Amended and Restated Certificate of Designation, Rights and Preferences of Series B Convertible Preferred Stock of the Registrant, dated as of October 13, 2009 and filed with the Secretary of State of the State of Nevada on October 15, 2009 (filed as Exhibit 4.2 to the Registrant’s Form 8-K (filed on October 19, 2009) and incorporated herein by reference). |

| | |
|---|---|
| 4.5 | Form of stock certificate for Series B Convertible Preferred Stock (filed as Exhibit 4.5 to the Registrant's Annual Report on Form 10-K for year ended December 31, 2008 (filed on March 31, 2009) and incorporated herein by reference). |
| 10.1*+ | Software Reseller and License Agreement, dated as of June 24, 2014, by and between Officeware Corporation and Konica Minolta Business Solutions U.S.A., Inc. |
| 31.1* | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act. |

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| Exhibit Number | Description of Exhibit |
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| 31.2* | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act. |
| 32.1* | Certification Required by 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002). |
| 32.2* | Certification Required by 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002). |
| 101* | XBRL data files of Financial Statements and Notes contained in this Quarterly Report on Form 10-Q. |

* Indicates document filed herewith.

+ Indicates confidential information has been omitted from this document and has been filed separately with the SEC pursuant to a confidential treatment request under Rule 24b-2.

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SIGNATURES

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

| | | |
|---|---|---|
| Date: August 14, 2014 | IMMEDIATEK, INC.,<br>a Nevada corporation | |
| | By: | /s/ Timothy M. Rice |
| | Name: | Timothy M. Rice |
| | Title: | Chief Executive Officer and President<br>(On behalf of the Registrant and as Principal<br>Executive Officer) |
| Date: August 14, 2014 | | |
| | By: | /s/ Timothy McCrory |
| | Name: | Timothy McCrory |
| | Title: | Chief Financial Officer<br>(On behalf of the Registrant and as Principal<br>Financial Officer) |

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