Vivakor, Inc.
Form 10-Q
August 24, 2010

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2010

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number 000-53535

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

Nevada	26-2178141
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2590 Holiday Road, Suite 100, Coralville, IA 52241
(Address of principal executive offices, including zip code)

(319) 625-2172
(Registrant’s telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

84,925,598 shares of Common Stock as of August 13, 2010

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Item 1A of Part II has been omitted based on the Company's status as a "smaller reporting company."

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Vivakor, Inc.

Condensed Consolidated Balance Sheets

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$756	$187,646
Accounts receivable	45,234	-
Inventories	7,781	38,860
Deferred loan costs	13,833	-
Prepaid expenses and deposits	363,468	7,592
Total current assets	431,072	234,098
Investment in unconsolidated affiliate	-	307,915
Property and equipment, net	71,522	85,207
Patents, net	2,473,128	2,844,097
	$2,971,222	$3,471,317
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$161,416	$243,612
Accrued wages	1,004,963	828,018
Deferred revenue	102,638	132,554
Loans and advances from related parties	13,407	347,572
Grant payable	164,292	159,487
Note payable	-	505,058
*Convertible notes payable	78,545	-
Fair value of share conversion feature	144,612	-
Total current liabilities	1,669,873	2,216,301
Deferred revenue	147,888	199,207
Deferred income taxes	865,595	995,434
Total liabilities	2,683,356	3,410,942
Commitments		
Stockholders' equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized;		
none issued and outstanding	-	-
Common stock, $.001 par value; 242,500,000 shares		
authorized; 84,925,598 shares in 2010		

and 62,992,322 in 2009, issued and outstanding (4,459,000 held in escrow in 2010)	84,325	62,992
Additional paid-in capital	5,699,765	4,224,141
Notes receivable	(1,036,063)	(1,329,518)
Accumulated deficit	(4,915,298)	(3,420,661)
Total Vivakor, Inc. stockholders' equity (deficit)	(167,291)	(463,046)
Noncontrolling interest	455,157	523,421
Total stockholders' equity	287,866	60,375
	$2,971,222	$3,471,317

See accompanying notes.

Note: The balance sheet as of December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Vivakor, Inc.

Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues:				
Product sales	$ -	$ 14,064	$ 135,650	$ 20,287
License fees	25,659	-	51,319	-
Grant revenue	-	74,700	-	74,700
Total revenues	25,659	88,764	186,969	94,987
Cost of revenues	-	11,210	107,859	15,491
Gross profit	25,659	77,554	79,110	79,496
Operating expenses:				
Research and development	241,067	285,450	516,190	582,571
Sales and marketing	530	200	1,830	491
General and administrative	452,561	147,698	881,142	291,433
Total operating expenses	694,158	433,348	1,399,162	874,495
Loss from operations	(668,499)	(355,794)	(1,320,052)	(794,999)
Abandoned offering costs	-	-	-	(111,316)
Interest income	4,519	-	10,650	-
Interest expense	(64,632)	(19,606)	(75,423)	(39,241)
Loss before income tax	(728,612)	(375,400)	(1,384,825)	(945,556)
Benefit for income taxes	(64,920)	-	(129,839)	(129,839)
Net loss	(663,693)	(310,480)	(1,245,986)	(815,717)
Less: Net loss attributable to the noncontrolling interest	(34,132)	(4,991)	(68,264)	(9,982)
Net loss attributable to Vivakor, Inc.	$ (629,561)	$ (305,489)	$ (1,186,722)	$ (805,735)
Net loss per share:				
Basic and diluted	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.02)
Weighted average shares - Basic and diluted	77,224,982	45,082,203	71,475,714	50,552,565

See accompanying notes

Vivakor, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2010	2009
Operating Activities		
Net loss	$ (1,245,896)	$ (815,717)
Depreciation and amortization	392,821	384,656
Write-off of previously capitalized deferred offering costs	-	111,316
Common shares issued for services received	391,300	-
Stock option compensation expense	117,319	-
Loss on change in fair value of conversion liability	12,640	-
Interest added to notes payable	70,807	39,241
Interest added to notes receivable	(10,565)	-
Deferred income taxes	(129,839)	(129,839)
Adjustments to reconcile net loss to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(45,234)	(5,084)
Inventory	31,079	(3,156)
Prepaid expenses	2,824	-
Accounts payable	(13,346)	7,295
Accrued wages	176,945	274,272
Deferred revenue	(81,235)	20,300
Loans and advances from related parties	12,270	30,625
Net cash used in operating activities	(343,390)	(86,091)
Financing activities- Payments on notes receivable	11,000	-
Financing activities		
Payments on note payable	-	(8,000)
Proceeds from issuance of convertible notes	167,500	-
Payments of loan fees	(22,000)	-
Net cash provided by (used in) financing activities	145,500	(8,000)
Net change in cash and cash equivalents	(186,890)	(94,091)
Cash and cash equivalents- beginning of period	187,646	145,669
Cash and cash equivalents- end of period	$ 756	$ 51,578
Noncash transactions:		
Offset of accounts and notes payable with note receivable	$ 293,020	$ -
Issuance of common shares for prepaid services	$ 353,050	$ -
Issuance of common shares to settle notes payable	$ 510,839	$ -
Issuance of common shares for reduction of related party loan	$ 108,849	$ 100,000
Distribution of Regeneca Shares as a Dividend	$ 307,915	-

See accompanying notes.

Vivakor, Inc.

Notes to Condensed Consolidated Statements
(Unaudited)

1. Organization and Basis of Presentation

Vivakor, Inc. (collectively "we," "us," "our," "Vivakor" or the "Company") is a Nevada corporation based in Coralville, Iowa and is a trans-disciplinary biomedical company that is involved in the discovery, development and commercialization of a broad range of medical devices and pharmaceuticals to improve human health. The Company also performs contract research services and development in molecular biology and devices engineering.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full fiscal year. These consolidated interim financial statements should be read in conjunction with the Company's financial statements and notes thereto for the fiscal year ended December 31, 2009.

Going Concern

The condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of business. Since inception, the Company has been engaged in obtaining financing, recruiting personnel, establishing office facilities and research and development activities. During the first quarter of 2008, the Company commenced providing research services and, during the fourth quarter of 2008, the Company commenced a capital formation activity that was terminated in April 2009 with no cash proceeds being received by the Company. On August 12, 2009 the Company commenced a second capital formation activity which, as of June 30, 2010 resulted in $319,714 in net cash proceeds received and $1,341,845 in notes receivable. The notes originally matured in October 2009 and were extended to January 31, 2010. As of June 30, 2010, the remaining note balances, including interest total $1,036,063 and they are continuing to accrue on a month-to-month basis. There is no assurance that the remaining amounts receivable under the notes will be collected by the Company when due.

The Company does not have sufficient cash on hand to fund its administrative and other operating expenses or its proposed research and development and sales and marketing programs for the next twelve months. The Company's ability to become a profitable operating company is dependent upon obtaining financing adequate to fulfill its research and market introduction activities, and achieving a level of revenues adequate to support the Company's cost structure. Management intends to finance the Company's operations from loans and advances from current stockholders, future public and private debt and equity offerings, proceeds from product sales and research and development services provided to others or from strategic arrangements with third parties. However, there can be no assurance that additional capital will be available, which may affect the Company's ability to continue as a going concern. The Company currently has no agreements, arrangements or understandings with any person to obtain funds through bank loans, lines of credit or any other sources. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

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2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Vivakor, Inc., its wholly owned subsidiaries Vivasight, Inc., Vivathermic, Inc. and Vivaventures, Inc., all of which were formed on February 19, 2009, and its majority owned subsidiary, HealthAmerica, Inc. ("HealthAmerica"), a Nevada corporation. On October 20, 2008, the Company acquired approximately 84% of HealthAmerica's outstanding shares. On December 9, 2009, the Company distributed a number of its shares of HealthAmerica common stock to its stockholders of record on December 1, 2009, reducing its interest in HealthAmerica to approximately 62% . All intercompany transactions have been eliminated in consolidation. Vivasight, Vivathermic and Vivaventures are all currently inactive. Since certain related parties held interests in HealthAmerica prior to its acquisition by Vivakor, the noncontrolling interest in HealthAmerica's net operating results is calculated at approximately 4% through December 9, 2009 and approximately 28% thereafter of amortization expense on the acquired HealthAmerica patent and the related deferred income tax benefit, and approximately 16% of HealthAmerica's remaining operating results through December 9, 2009 and approximately 38% thereafter.

Investments in which the Company does not exercise significant influence over the investee are accounted for using the cost method of accounting. At December 31, 2009, the Company held a noncontrolling interest in Regeneca International, Inc., a private company, which was accounted for using the cost method and is included in Investment in Unconsolidated Affiliate. All of the Regeneca shares held at December 31, 2009 were distributed to our shareholders of record on April 22, 2010.

Accounts receivables:

Accounts receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The allowance for doubtful accounts was zero at June 30, 2010 and December 31, 2009.

Inventories

Inventories are stated at the lower of cost or market. Cost is based on the first in, first out method. The Company regularly reviews inventory quantities on hand and, when required, provisions are made to reduce excess and obsolete inventories to their estimated net realizable value. No provision was recorded at June 30, 2010 or December 31, 2009. At June 30, 2010 inventories consist of $1,955 in raw materials, $1,532 in work in process and $4,294 in finished goods. At December 31, 2009 inventories consist of $1,955 in raw materials, $34,582 in work in process and $2,323 in finished goods.

Deferred Loan Costs

Deferred loan costs are amortized to interest expense using the effective interest method over the term of the related debts.

Convertible Instruments

The Company reviews the terms of convertible debt and preferred stock for indications requiring bifurcation, and separate accounting for the embedded conversion feature. Generally, embedded conversion features where the ability to physical or net-share settle the conversion option is not within the control of the Company or the number of shares

is variable are bifurcated and accounted for as derivative financial instruments. (See Derivative Financial Instruments below). Bifurcation of the embedded derivative instrument requires allocation of the proceeds first to the fair value of the embedded derivative instrument with the residual allocated to the host instrument. The resulting discount to the debt instrument or to the redemption value of convertible preferred securities is accreted through periodic charges to interest expense over the term of the note or to dividends over the period to earliest conversion date using the effective interest rate method, respectively.

Derivative Financial Instruments

The Company does not use derivative financial instruments to hedge exposures to cash-flow or market risks. However, certain other financial instruments, such as warrants to purchase the Company's common stock and the embedded conversion features of debt and preferred instruments that are not considered indexed to the Company's common stock are classified as liabilities when either (a) the holder possesses rights to net-cash settlement, (b) physical or net share settlement is not within the control of the Company, or (c) based on its anti-dilutive provisions. In such instances, net-cash settlement is assumed for financial accounting and reporting. Such financial instruments are initially recorded at fair value and subsequently adjusted to fair value at the close of each reporting period. Fair value for option-based derivative financial instruments is determined using the Black-Scholes Option Pricing Model.

Other convertible instruments that are not derivative financial instruments are accounted for by recording the intrinsic value of the embedded conversion feature as a discount from the initial value of the instrument and accreting it back to face value over the period to the earliest conversion date using the effective interest rate method.

Revenue Recognition

The Company recognizes revenue when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the fees earned can be readily determined; and (iv) collectability of the fees is reasonably assured. The Company recognizes revenue from research contracts as services are performed under the agreements. The Company records grant revenues as the expenses related to the grant projects are incurred. Up front license fee revenues are deferred and recognized over the term of the license on a straight-line basis.

Stock-Based Compensation

The compensation cost for all stock-based awards is measured at the grant date, based on the fair value of the award, and is recognized as an expense in the statements of operations, on a straight-line basis, over the employee's requisite service period (generally the vesting period of the equity award), which is generally two to three years. The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Stock-based compensation expense is recorded only for those awards expected to vest using an estimated forfeiture rate. Pre-vesting option forfeitures are estimated at the time of grant and are reflected in stock-based compensation expense recognized in the consolidated statements of operations.

Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per common share is computed by dividing the net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method if their effect is dilutive. For the three months ended March 31, 2010 and 2009, the effect of all stock-based awards were anti-dilutive due to the net loss incurred and therefore, they were not included in the computation of per share amounts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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3. Loans and Advances From Related Parties and Other Related Party Transactions

Loans and advances from related parties consist of the following:

	June 30, 2010	December 31, 2009
Advances payable to stockholders/officers	$13,407	$ 239,757
Note payable to stockholder	-	107,815
	$13,407	$ 347,572

Advances payable to stockholders/officers are noninterest bearing and represent cash advances directly to the Company as well as Company expenditures (primarily payroll, legal fees, lab and office equipment and supplies) that were paid for directly by the stockholders on behalf of the Company. During the first quarter of 2010, $238,620 in advances payable to stockholders was offset with $238,620 in notes receivable from stockholders.

On June 30, 2008, the Company purchased office and lab furniture and equipment from a stockholder at a total cost of $87,450. The stockholder financed the equipment with a note agreement that is secured by the assets purchased. The note bore interest at 14% per annum and was due on December 31, 2008. The note was not paid on December 31, 2008 and continued on a month to month basis. The note contained a contingent beneficial conversion feature that gives the note holder the option to be repaid with common stock with piggyback registration rights if the Company is unable to repay the balance due upon maturity. The number of shares to be issued in this case would be equal to the outstanding principal plus accrued and unpaid interest divided by 80% of the average stock price 30 days prior to the maturity date. Interest expense during the three months ended March 31, 2010 and 2009 totaled $910 and $3,276, respectively and was added to the note balance. In the first quarter 2010, the note holder assigned the note to another shareholder in the Company, the assignee exercised the conversion feature option and the outstanding note balance plus accrued interest of $108, 849 at the time of conversion was settled for 837,301 shares of common stock.

During the three and six months ended June 30, 2010, all license fee and product sales revenues were from Regeneca International, Inc., a company that we entered into a license agreement with in December 2009. As part of the license agreement, we were issued approximately 15% of Regeneca's outstanding shares and all of the shares we held in Regeneca had been distributed to our shareholders in the form of a dividend on April 22, 2010. One of our officers at March 31, 2010 was also a stockholder of Regeneca. There were no revenues from related parties during the six months ended June 30, 2009.

During the three and six months ended June 30, 2010, the Company engaged a consultant, that is also a stockholder of the Company, to provide financial consulting and investor relations services at base cost of $7,500 per month, plus certain transaction fees as agreed prior to each transaction. Total consulting fees incurred to this stockholder totaled 7,500 and $72,450 during the three and six months ended June 30, 2010.

During the six months ended June 30, 2010, the Company engaged another consultant that is a stockholder to provide certain administrative and investor relations services. Total fees incurred to this stockholder totaled $2,650 and $11,150 during the three and six months ended June 30, 2010.

4. Note Payable

The note payable was incurred in connection with the acquisition of 84% of HealthAmerica's outstanding shares on October 20, 2008, was non-recourse and was secured by the acquired HealthAmerica shares and all of HealthAmerica's assets. The note bore interest at 4% per annum and required the Company to make monthly payments of $25,000. In addition, every 90 days, the Company is required to make additional note payments equal to

10% of the gross proceeds received from any sales of equity or debt securities, or any sale or licensing of products or technology until all outstanding principal and interest are repaid. As of March 31, 2010 the Company had not made all of the required monthly payments under the agreement and the Company remained in arrears subsequent to March 31, 2010. In May 2010, the Company and note holder agreed to convert the entire note payable balance into 12,770,975 shares of common stock at $0.04 per share.

5. Convertible Notes Payable

On February 4, 2010, the Company entered into a $50,000 convertible promissory note. The note bears interest at 8% per annum, matures on November 4, 2010 and, at the holder's option, may be converted into shares of common stock. The conversion price is generally equal to 58% of the average of the lowest three closing bid price on the Over-the-Counter Bulletin Board in the ten day trading period prior to the date of the notice of conversion. This note also has anti-dilution provisions such that the conversion price may be reduced in the event the Company issues or sells shares at a price below the conversion price. The Company has accounted for the conversion feature as an embedded derivative instrument requiring it to be separated from the note payable and reported at fair value. The fair value of the conversion feature at issuance was $46,929. The share conversion liability is subject to recurring fair value adjustments each reporting period (See note 9 – Assets and liabilities at fair value). The discount is amortized over the life of the note payable using the effective interest method and recorded as interest in the statement of operations. The note may not be prepaid without the holder's consent and is subject to a prepayment penalty. During the 3 months ended 6/30/10, total interest expense related to the accretion of the discount on the note payable was approximately $26,000. The Company has reserved 2,105,265 shares of common stock to provide for the issuance of shares upon the full conversion of this note.

On March 29, 2010, the Company entered into a $60,000 convertible promissory note. The note bears interest at 8% per annum, matures on December 26, 2010 and, at the holder's option, may be converted into shares of common stock. The conversion price is generally equal to 58% of the average of the lowest three closing bid price on the Over-the-Counter Bulletin Board in the ten day trading period prior to the date of the notice of conversion. This note also has anti-dilution provisions such that the conversion price may be reduced in the event the Company issues or sells shares at a price below the conversion price. The Company has accounted for the conversion feature as an embedded derivative instrument requiring it to be separated from the note payable and reported at fair value. The fair value of the conversion feature at issuance was $56,339. The share conversion liability is subject to recurring fair value adjustments each reporting period (See note 9 – Assets and liabilities at fair value). The discount is amortized over the life of the note payable using the effective interest method and recorded as interest in the statement of operations. The note may not be prepaid without the holder's consent and is subject to a prepayment penalty. During the three months ended June 30, 2010, total interest expense related to the accretion of the discount on the note payable was approximately $25,000. The note may not be prepaid without the holder's consent and is subject to a prepayment penalty. The Company has reserved 3,154,980 shares of common stock to provide for the issuance of shares upon the full conversion of this note.

On April 27, 2010, the Company entered into a $30,000 convertible promissory note. The note bears interest at 8% per annum, matures on January 28, 2011 and, at the holder's option, may be converted into shares of common stock. The conversion price is generally equal to 58% of the average of the lowest three closing bid price on the Over-the-Counter Bulletin Board in the ten day trading period prior to the date of the notice of conversion. This note also has anti-dilution provisions such that the conversion price may be reduced in the event the Company issues or sells shares at a price below the conversion price. The Company has accounted for the conversion feature as an embedded derivative instrument requiring it to be separated from the note payable and reported at fair value. The fair value of the conversion feature at issuance was $28,170. The share conversion liability is subject to recurring fair value adjustments each reporting period (See note 9 – Assets and liabilities at fair value). The discount is amortized over the life of the note payable using the effective interest method and recorded as interest in the statement of operations. The note may not be prepaid without the holder's consent and is subject to a prepayment penalty. During the 3 months ended 6/30/10, total interest expense related to the accretion of the discount on the note payable was approximately $9,000. The note may not be prepaid without the holder's consent and is subject to a prepayment penalty. The Company has reserved 1,989,390 shares of common stock to provide for the issuance of shares upon the full conversion of this note.

On May 14, 2010, the Company entered into a $27,500.00 convertible promissory note. The note bears interest at 8% per annum, matures on February 17, 2011 and, at the holder's option, may be converted into shares of common stock. The conversion price is generally equal to the lower of $0.03 or 58% of the average of the lowest three closing bid price on the Over-the-Counter Bulletin Board in the ten day trading period prior to the date of the notice of conversion. This note also has anti-dilution provisions such that the conversion price may be reduced in the event the Company issues or sells shares at a price below the conversion price. The Company has accounted for the conversion feature as an embedded derivative instrument requiring it to be separated from the note payable and reported at fair value. The fair value of the conversion feature at issuance was $25,813. The share conversion liability is subject to recurring fair value adjustments each reporting period (See note 9 – Assets and liabilities at fair value). The discount is amortized over the life of the note payable using the effective interest method and recorded as interest in the statement of operations. The note may not be prepaid without the holder's consent and is subject to a prepayment penalty. During the 3 months ended 6/30/10, total interest expense related to the accretion of the discount on the note payable was approximately $4,000. The note may not be prepaid without the holder's consent and is subject to a prepayment penalty. The Company has reserved 2,750,000 shares of common stock to provide for the issuance of shares upon the full conversion of this note.

6. Equity Transactions

In January 2010, the Company entered into an agreement with a consultant whereby the consultant is to provide various management consulting, business advisory, stockholder information and public relations services to the Company for a nine month period in exchange for 2,700,000 shares of the Company's common stock. The stock was issued to the consultant shortly after the agreement was executed and, in January, 2010, the Company filed a Registration Statement on Form S-8 with the Securities and Exchange Commission to register the 2,700,000 shares available under the consulting agreement. The consultant shall earn the shares at the rate of 300,000 shares per month and is also entitled to other fees, generally based on 5% of any funds raised or merger consideration received as a result of the consultant's efforts. No other fees were earned during the first quarter 2010.

In the first quarter 2010, the Company issued 837,301 shares of common stock upon the conversion of a note payable and accrued interest totaling $108,849 (Note 3).

In February 2010, the Company issued an aggregate of 190,000 shares in payment of current and prior services aggregating $37,950.

In April 2010, the company issued 300,000 common shares to each of two independent directors. The shares were valued at an aggregate of $54,000 and recorded as prepaid compensation, which is being recognized as an expense on a straight-line basis over the 36 month vesting period.

In the second quarter 2010, the Company agreed to issue an aggregate of 4,835,000 shares, valued at $281,000, to various consultants for services performed and to be performed. As of June 30, 2010, 200,000 shares valued at $16,000 had not been issued and the value of such shares in recorded in accounts payable. A prepaid expense was originally recorded in the amount of $240,000 for the future services to be performed and is being recognized as an expense over the vesting period.

In May, 2010 the Company converted a $510,839 note payable into 12,770,975 common shares (Note 4).

7. Income Taxes

The income tax benefit of $64,919 and $129,839 for the three months and six months ended June 30, 2010, respectively, and $64,920 and $129,839 for the three and six months ended June 30, 2009, respectively, relates to the amortization of acquired HealthAmerica patents.

As of June 30, 2010, net deferred tax assets were $989,000 with a related valuation allowance of $989,000. Deferred tax assets represent future tax benefits to be received when certain expenses and losses previously recognized in the financial statements become deductible under applicable income tax laws. The realization of deferred tax assets is dependent on future taxable income against which these deductions can be applied. The Company has established the valuation allowance because it is more likely than not that all or a portion of the deferred tax assets will not be realized. Periodic adjustments will be made to the valuation allowance in future periods if there are changes in the evidence of realizability.

The deferred tax liability of $866,000 at June 30, 2010 consists of the difference in book and tax carrying value of the acquired HealthAmerica patents.

8. Stock Incentive Program

On October 23, 2008, the Board of Directors approved the Vivakor 2008 Incentive Plan (the “2008 Plan”). The 2008 Plan authorizes the issuance of up to 7,500,000 shares of common stock. The 2008 Plan allows for the grant of tax-qualified incentive stock options, non-qualified stock options and restrictive stock and other stock-based awards to employees, directors and consultants of the Company. In January, 2010, the Company filed a Registration Statement on Form S-8 with the Securities and Exchange Commission to register all of the shares available under the 2008 Plan.

On April 19, 2010 the Board of Directors authorized the grant of 300,000 each to two of the Company’s directors under the 2008 Plan. The aggregate shares granted were valued at $54,000 and vest quarterly over 36 months commencing April 1, 2010.

9. Assets and Liabilities Measured at Fair Market Value

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability to a third party with the same credit standing (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In many cases, the exit price and the transaction (or entry) price will be the same at initial recognition. However, in certain cases, the transaction price may not represent fair value. Fair value is a market-based measurement determined based on a hypothetical transaction at the measurement date, considered from the perspective of a market participant, not based solely upon the perspective of the reporting entity. When quoted prices are not used to determine fair value, consideration is given to three broad valuation techniques: (i) the market approach, (ii) the income approach, and (iii) the cost approach. Entities are required to determine the most appropriate valuation technique to use, given what is being measured and the availability of sufficient inputs. Inputs to fair valuation techniques are prioritized, allowing for the use of unobservable inputs to the extent that observable inputs are not available. The applicable guidance establishes a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability’s classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1, quoted prices in markets that are not active, or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include those whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as those for which the determination of fair value requires significant management judgment or estimation.

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Financial instruments which are measured at estimated fair value on a recurring basis in the condensed consolidated financial statements include an embedded share conversion feature. The fair value of the share conversion feature was determined by using the Black-Scholes Option Pricing Model.

Assets and liabilities measured at estimated fair value on a recurring basis and their corresponding fair value hierarchy is summarized as follows:

Fair Value Measurements at Reporting Date June 30, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Liabilities - Share conversion feature	$ -	$ 144,612	