



**Scrypt, Inc.**  
**Consolidated Financial Statements**  
**(Including Report of Independent Registered Public Accounting Firm)**  
**December 31, 2014 and 2013**



## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Scrypt, Inc.:

We have audited the accompanying consolidated balance sheets of Scrypt, Inc. (formerly SecureCare Technologies, Inc.) (the "Company"), as of December 31, 2014, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The financial statements of the Company as of and for the year ended December 31, 2013, were audited by other auditors whose report dated October 31, 2014, expressed an unqualified opinion.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**BAUER & COMPANY, LLC**

*Bauer & Company, LLC*

July 9, 2015  
Austin, Texas

**SCRIPT, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2014 and 2013**

ASSETS

	2014	2013
<b>Current assets</b>		
Cash and cash equivalents	\$ 152,389	\$ 290,424
Accounts receivable - trade, net of allowance for doubtful accounts of \$3,812 and \$7,878, respectfully	997,118	341,170
Receivable due from Axacore, Inc.	202,407	-
Inventory	93,053	-
Prepaid expenses	79,558	30,432
Accrued interest income	1,028	-
Total current assets	1,525,554	662,026
<b>Noncurrent assets</b>		
Related party note receivable	208,556	-
Property and equipment, net of accumulated depreciation of \$1,049,437 and \$884,855, respectively	611,164	346,015
Goodwill	1,380,632	-
Intangible Assets, net of accumulated amortization of \$0	2,281,000	-
Total noncurrent assets	4,481,352	346,015
Total assets	\$ 6,006,906	\$ 1,008,041

LIABILITIES AND SHAREHOLDERS' EQUITY

<b>Current liabilities</b>		
Current portion of notes payable; including \$122,500 and \$100,000 to related parties, respectively	\$ 338,700	\$ 105,000
Payable due to Axacore, Inc.	634,927	-
Accounts payable - trade	410,012	145,757
Accrued payroll and payroll taxes	43,532	45,367
Deferred revenue	704,269	276,030
Accrued interest expense	9,756	6,815
Other accrued expenses	36,709	20,671
Total current liabilities	2,177,905	599,640
<b>Noncurrent liabilities</b>		
Long-term portion of notes payable; including \$7,500 to a related party	65,600	-
Total noncurrent liabilities	65,600	-
Total liabilities	2,243,505	599,640
<b>Commitments and contingencies</b>	-	-
<b>Shareholders' equity</b>		
Preferred stock - \$0.001 par value; 15,000,000 shares authorized:		
Series A convertible preferred stock - 925,000 shares issued and outstanding (liquidation preference of \$925,000)	925	925
Series B convertible preferred stock - 454,547 shares issued and outstanding (liquidation preference of \$500,002)	454	454
Common stock - \$0.001 par value; 55,000,000 shares authorized, 46,049,614 and 28,053,892 shares issued and outstanding, respectively	46,050	28,054
Additional paid-in capital	49,781,019	44,593,475
Accumulated deficit	(46,065,048)	(44,214,507)
Total shareholders' equity	3,763,400	408,401
Total liabilities and shareholders' equity	\$ 6,006,906	\$ 1,008,041

See notes to the consolidated financial statements and report of Independent Registered Public Accounting Firm

**SCRIPT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2014 and 2013**

	2014	2013
Revenues	\$ 3,728,571	\$ 2,555,109
Operating expenses		
Cost of revenues	1,585,421	1,211,582
Selling, general and administrative	3,829,900	1,937,794
Operating loss	(1,686,750)	(594,267)
Other income (expense)		
Interest expense, net	(10,927)	(33,961)
Other expense, net	(142,463)	-
Net loss before income taxes	\$ (1,840,140)	\$ (628,228)
Income tax expense	\$ 10,402	\$ 3,334
Net loss attributable to common shareholders	\$ (1,850,542)	\$ (631,562)
Net loss per common share - basic and diluted	\$ (0.06)	\$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	30,946,526	26,086,438

See notes to the consolidated financial statements and report of Independent Registered Public Accounting Firm

**SCRIPT, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY**  
**For the Years Ended December, 2014 and December 31, 2013**

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid - in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2012	925,000	\$ 925	454,547	\$ 454	25,493,273	\$ 25,493	\$ 43,559,831	\$ (43,582,945)	\$ 3,758
Issuance of common stock in connection with the sale of common stock shares	-	-	-	-	1,854,320	1,854	552,192	-	554,046
Issuance of common stock in connection with the conversion of notes payable and accrued interest	-	-	-	-	634,158	635	189,613	-	190,248
Issuance of common stock in connection with the issuance of notes payable	-	-	-	-	72,115	72	21,562	-	21,634
Stock Compensation Expense	-	-	-	-	-	-	270,277	-	270,277
Net loss for the year	-	-	-	-	-	-	-	(631,562)	(631,562)
Balance at December 31, 2013	925,000	\$ 925	454,547	\$ 454	28,053,866	\$ 28,054	\$ 44,593,475	\$ (44,214,507)	\$ 408,401
Issuance of common stock in connection with the sale of common stock shares	-	-	-	-	880,000	880	263,120	-	264,000
Issuance of common stock in connection with the Termination of the Technology License Agreement with SecureCare Technologies, Inc. UK Ltd.	-	-	-	-	700,000	700	132,300	-	133,000
Issuance of common stock	-	-	-	-	5,515,748	5,516	1,042,476	-	1,047,992
Compensation expense related to stock options	-	-	-	-	-	-	54,549	-	54,549
Issuance of common stock in connection with the acquisition of Axacore, Inc.	-	-	-	-	10,900,000	10,900.00	3,695,100	-	3,706,000
Net loss	-	-	-	-	-	-	-	(1,850,542)	(1,850,542)
Balance at December 31, 2014	925,000	\$ 925	454,547	\$ 454	46,049,614	\$ 46,050	\$ 49,781,019	\$ (46,065,048)	\$ 3,763,400

See notes to the consolidated financial statements and report of Independent Registered Public Accounting Firm

**SCRIPT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities		
Net loss	\$ (1,850,542)	\$ (631,562)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	164,582	177,694
Compensation expense related to stock options	54,549	270,277
Stock issuance expense resulting from cancellation of an agreement	133,000	-
Compensation expense related to common stock issuance	1,047,992	-
Amortization of debt discount	-	26,644
Changes in operating assets and liabilities:		
Accounts receivable - trade	(65,371)	(151,210)
Prepaid expenses	(21,490)	(10,963)
Deferred revenue	275,832	135,828
Accounts payable - trade	121,466	11,704
Other liabilities	14,446	(52,903)
Cash flows used by operating activities	(125,536)	(224,491)
Cash flows from investing activities		
Capital expenditures	(38,626)	-
Capitalized software development costs	(361,033)	(262,222)
Cash assumed in Axacore, Inc. merger	33,444	-
Issuance of related party note receivable	(209,584)	-
Cash flows used in investing activities	(575,799)	(262,222)
Cash flows from financing activities		
Proceeds from common stock sale	264,000	554,046
Proceeds from Issuance of note payable	349,300	235,800
Payments on notes payable	(50,000)	(73,946)
Cash flows provided by financing activities	563,300	715,900
Net (decrease) in cash and cash equivalents	(138,036)	229,187
Cash and cash equivalents, beginning of period	290,424	61,237
Cash and cash equivalents, end of period	\$ 152,389	\$ 290,424
Supplemental disclosures for cash flow information:		
Cash paid for interest	\$ 9,014	\$ -
Cash paid for income taxes	\$ -	\$ -
Supplemental non-cash financing activity:		
Conversion of notes payable and accrued interest to common stock	\$ -	\$ 190,248

See notes to the consolidated financial statements and report of Independent Registered Public Accounting Firm

**Scrypt, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 1 - Nature of Business**

Scrypt, Inc., formerly known as SecureCare Technologies, Inc. (the “Company”), is a provider of internet-based document exchange and electronic storage solutions. The Company is based in Austin, TX and also has an office San Diego, CA.

Effective February 27, 2014, the Company changed its name from SecureCare Technologies, Inc. to Scrypt, Inc.

On December 31, 2014, the Company acquired Axacore, Inc. (see Note 4).

The Company focuses on helping healthcare and lending customers streamline paper-intensive processes and protect sensitive and business-critical information. The Company is dedicated to eliminating manual processes and paper using its proprietary technology.

The Company’s four main product brands are Sfax™, Scrypt™, XDOC™, and FaxAgent™. The Company’s internet-based Sfax™ with digital signature and annotation features is a secure electronic fax record. The product is a HIPAA-ready (Health Insurance Portability and Accountability Act) work flow solution that maintains the essential benefits that keep faxing relevant but removes the pain associated with manual faxing and fax servers by bringing the fax to the cloud. Sfax™ is for industries and organizations that continue to rely on fax for business-critical documents – enabling faster, more efficient and easier workflow management for teams to get their job done.

Scrypt™ is a document platform built for healthcare. Scrypt™ lets users transform their workflow by storing, exchanging and enhancing documents in a cloud-based HIPAA compliant environment. Scrypt™ can be universally adopted by a single physician to enterprise-level hospital groups, where thousands of users can collaborate across multiple locations. The Company plans to launch Scrypt™ into the market in the third quarter of 2015.

XDOC™ is an electronic document management (EDM) platform to help simplify the mortgage lending process.

FaxAgent™ provides business-class Fax Over Internet Protocol (FoIP) technology for small and medium-sized telecommunication carriers or service providers that wish to incorporate reliable, high performance and scalable faxing technology into their offering.

**Note 2 - Going Concern**

The Company sustained net losses of \$1,850,542 and \$631,562 for the years ended December 31, 2014 and 2013 respectively. The Company has accumulated losses through December 31, 2014 of \$46 million. Cash used in operating activities for the years ended December 31, 2014 and 2013 was \$125,536 and \$224,491, respectively. The Company's continued existence depends upon the success of management's efforts to increase revenue and raise additional capital necessary to meet the Company's obligations as they come due, and to obtain sufficient capital to execute its business plan. The Company intends to obtain capital primarily through issuances of debt or equity. There can be no degree of assurance that the Company will be successful in completing additional financing transactions. Based on operations and capital resources in 2015, the Company’s management believes it will be successful in maintaining its operations through December 31, 2015.

**Script, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 2 - Going Concern (continued)**

Failure to generate additional revenues, raise additional capital or manage discretionary spending could have a material adverse effect on the Company's ability to continue as a going concern. The matters discussed above raise substantial doubt about the Company's ability to continue as a going concern and achieve its intended business objectives. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Note 3 - Summary of Significant Accounting Policies and Practices**

***Basis of Presentation***

The accompanying consolidated financial statements were prepared using accounting principles generally accepted in the United States of America.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, as well as the reported amount of revenue and expenses during the reporting periods. Actual results could differ from these estimates. The Company's most significant estimates relate to fair value for stock based compensation, software services revenue recognition, capitalization of software development costs, intangible assets and the useful lives of property, equipment and intangible assets.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries in which the Company has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. Accordingly, the Company consolidates its wholly owned subsidiary, Axacore, Inc., as of the date of acquisition, which was December 31, 2014.

***Fair Value of Financial Instruments***

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an ordinary transaction between market participants on the measurement date. Our policy on fair value measures requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The policy establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The policy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities;

Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data;

Level 3 – Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

**Script, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 3 - Summary of Significant Accounting Policies and Practices (continued)**

At December 31, 2014 and 2013, the Company had no assets or liabilities that were reported at fair value. The carrying amounts of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate their fair values due to their short maturities. The fair value of related party receivables and notes payable was based on management's best estimate of what the amount could be settled for, which approximates the carrying value as of December 31, 2014 and 2013.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Company considers all short-term, highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents.

***Accounts Receivable and Allowance for Doubtful Accounts***

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. The Company's accounts receivable are not secured. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and an increase to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance.

***Property and Equipment***

Property and equipment consist principally of servers, computers, furniture, leasehold improvements and software. Servers, computers and furniture are stated at cost with depreciation provided using the straight-line method over the estimated useful life of the depreciable assets ranging from three to five years. Software, which is further described below in the section titled *Capitalized Software Costs*, is amortized over its estimated useful life of two to three years. Leasehold improvements are depreciated over the lesser of the useful life of the improvement or the term of the lease. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized.

***Capitalized Software Costs***

The Company capitalizes certain external and internal computer software costs incurred during the application development stage. The application development stage is characterized by software design and configuration activities, coding, testing and installation. Training costs and maintenance are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. The Company evaluates the carrying values of capitalized software to determine if the carrying values are impaired, and, if necessary, an impairment loss is recorded in the period in which the impairment is determined to have occurred.

***Inventories***

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. Inventory is comprised of fax server parts, completed units and related shipping supplies.

**Script, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 3 - Summary of Significant Accounting Policies and Practices (continued)**

***Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of***

Long-lived assets are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability of a long-lived asset (group) is based on an estimate of undiscounted cash flows expected to result from the use of the long-lived asset (group) and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. The Company's estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the Company's business model or changes in operating performance. If the sum of the undiscounted cash flows is less than the carrying value of the long-lived asset (group), the Company recognizes an impairment charge, measured as the amount by which the carrying value exceeds the fair value of the long-lived asset (group). The Company estimates fair value by discounting the projected cash flows expected to be generated by the applicable long-lived asset (group) over their remaining useful life.

No indicators of impairment existed at December 31, 2014 or 2013.

***Impairment of Indefinite-Life Intangibles***

The Company evaluates goodwill and indefinite-life intangible assets for impairment pursuant to FASB ASC Topic No. 350, Intangibles – Goodwill and Other (“ASC 350”), which provides that goodwill and other intangible assets with indefinite lives are not amortized but tested for impairment annually or more frequently if circumstances indicate potential impairment. In connection with the annual impairment test for goodwill, the Company will have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value is less than the carrying amount. If it is determined that it is more likely than not that the fair value is less than the carrying amount, then the Company will perform the impairment test. The impairment test is comprised of two steps: (1) a reporting unit's fair value is compared to its carrying value; if the fair value is less than its carrying value, impairment is indicated; and (2) if impairment is indicated in the first step, it is measured by comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

***Income Taxes***

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the asset or liability is expected to be realized or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain. The Company regularly assesses uncertain tax positions in each of the tax jurisdictions in which it has operations and accounts for the related financial statement implications. Unrecognized tax benefits are reported using the two-step approach under which tax effects of a position are recognized only if it is “more-likely-than-not” to be sustained and the amount of the tax benefit recognized is equal to the largest tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement of the tax position. Determining the appropriate level of unrecognized tax benefits requires the Company to exercise judgment regarding the uncertain application of tax law. The amount of unrecognized tax benefits is adjusted when information becomes available or when an event occurs indicating a change is appropriate. The Company includes interest and penalties related to its uncertain tax positions as part of income tax expense, if any.

**Script, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 3 - Summary of Significant Accounting Policies and Practices (continued)**

The Company files U.S. federal and U.S. state tax returns. The Company is generally no longer subject to tax examinations relating to federal and state tax returns for years prior to 2011.

The Company is subject to Texas franchise tax, which is based on taxable margin, rather than being based on federal taxable income. For the years ending December 31, 2014 and 2013, the Company recorded \$10,402 and \$3,334, respectively, in Texas franchise tax expense.

***Revenue Recognition***

The Company derives its revenues from the following sources: recurring monthly service fees, one-time training and set-up fees, and integration and customization services as contracted.

The Company recognizes revenue when four basic criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the fee charged for services rendered and the collectability of those fees. Should changes in conditions cause management to determine these criteria are not met for certain sales, revenue recognized for any reporting period could be adversely affected. In instances where any one of the four criteria is not met, the Company will either defer recognition of the monthly service fees until the criteria are met or will recognize the recurring monthly service fees on a ratable basis. Recognition of revenue resulting from annual plans, one-time training and set-up fees, which are billed upfront, is deferred and amortized over the life of the corresponding arrangements.

The Company routinely provides multiple elements in its contracts to perform services. When vendor specific objective evidence ("VSOE") of selling price exists for all elements in a multiple element arrangement, revenue is allocated to each element based on the relative selling price of each of the elements. VSOE of selling price is established by the price charged when the same element is sold separately.

***Reclassifications***

Where appropriate, the prior year's financial statements have been reclassified to conform to the current year presentation. None of these changes impact the Company's previously reported consolidated net revenue, net loss, or net cash provided by operating activities.

***Share Based Compensation***

The Company expenses all share-based payment to employees, including the grant of employee stock options, in the income statement based on their fair value less estimated forfeitures. Compensation cost is recognized over the award's requisite service period (which is generally the vesting term). The Company grants newly issued shares of stock upon exercise of stock options.

The value of equity instruments issued to non-employees is calculated for all transactions in which goods or services are the consideration received for the issuance of equity instruments and is accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measured. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the commitment date if there is sufficient disincentive to ensure performance.

***Recent Accounting Pronouncements***

Accounting standards that have been issued or proposed by the Financial Accounting Standards Board ("FASB") or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

**Script, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 4 – Acquisition of Axacore**

On December 31, 2014, the Company acquired Axacore, Inc. (“Axacore”) and Axacore became a wholly-owned subsidiary of the Company. The Company issued 10,900,000 shares of common stock to the four shareholders of Axacore, which were valued at \$0.34 per share, for a total of \$3,706,000.

The following schedule represents the fair value of the assets and liabilities acquired:

Cash assumed in acquisition	\$	33,444
Goodwill		1,380,632
Accounts receivable		590,578
Intangibles (see detail below)		2,281,000
Inventory		93,053
Prepaid expenses		27,636
Receivables due from Axacore shareholders		202,407
Property and equipment		30,072
Accrued expenses		(2,699)
Deferred revenue		(152,407)
Accounts payable		(142,789)
Payable due to Axacore shareholders		<u>(634,927)</u>
Value of Shares issued to Axacore shareholders	\$	<u>3,706,000</u>

The Company engaged a third-party valuation specialist to assist the Company in determining the fair value of the intangible assets acquired. The fair value of the intangible assets purchased by the Company under Accounting Standards Codification (“ASC”) 805 and the estimated useful life are described below:

Customer relationships (10 years)	\$	638,000
Trademarks/Trade name (Indefinite life)		236,000
Non-Compete agreements (3 years)		549,000
Technology (5 years)		171,000
Patents (7 years)		687,000
Intangible assets	\$	<u>2,281,000</u>

As of December 31, 2014, the Company recognized goodwill of \$1,380,632. The fair value of intangible assets with an indefinite life purchased by the Company under ASC 805 totals \$236,000 representing the fair value of Axacore’s Trademarks/Trade Name.

The expected amortization of intangible assets with a definite life over the 5 year period and thereafter is as follows:

2015	\$	379,143
2016		379,143
2017		379,143
2018		196,143
2019		196,143
Thereafter		515,285
	\$	<u>2,045,000</u>

**Scrypt, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 5 – Related Party Receivable**

On November 20, 2014 the Company loaned its Chief Executive Officer (“CEO”) \$208,556 in funds to facilitate payment of federal income taxes owed by him resulting from imputed income he realized in conjunction with his 2014 Restricted Stock Award (see Note 12). As a result, the Company entered into a five year note receivable with its CEO which bears interest at a rate of 4.25% per annum. Interest only payments commence on a semi-annual basis on May 20, 2015 through November 20, 2019 at which time the principal is due. As of December 31, 2014 accrued interest income on the note receivable totaled \$1,028.

**Note 6 – Inventory**

On December 31, 2014, the Company acquired Axacore. As part of the purchase transaction, the Company acquired inventory valued at \$93,053.

Raw materials and parts	\$	29,167
Finished goods		63,886
Total inventory	\$	<u>93,053</u>

**Note 7 - Property and Equipment**

Property and equipment consists of the following at December 31, 2014 and 2013:

	12/31/14	12/31/13
Furniture and fixtures	\$ 6,984	\$ 6,984
Property, plant and equipment	17,796	15,163
Leasehold Improvements	30,072	0
Computers	5,300	5,300
Servers	270,183	234,190
Software	1,330,266	969,233
Subtotal	<u>1,660,601</u>	<u>1,230,870</u>
Less accumulated depreciation and amortization	<u>(1,049,437)</u>	<u>(884,855)</u>
Total	\$ <u>611,164</u>	\$ <u>346,015</u>

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$164,582 and \$177,694, respectively.

**Script, Inc.**  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**Note 8 - Notes Payable**

Notes payable consists of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
In August 2014, the Company issued a 7% unsecured note payable for \$150,000 to a shareholder. The note requires three separate equal payments on February 28, 2015, August 31, 2015 and February 29, 2016	\$ 150,000	\$ -
In September 2014, the Company issued a 7% unsecured note payable for \$24,300 to a shareholder. The note requires three separate equal payments on April 30, 2015, October 31, 2015 and April 30, 2016	24,300	-
In October 2014, the Company issued a 7% unsecured note payable for \$17,500 to a shareholder. The note has a maturity date of December 31, 2015	17,500	-
In November 2014, the Company issued a 7% unsecured note payable for \$100,000 to a shareholder. The note has a maturity date of November 17, 2015	100,000	-
In December 2014, the Company issued a 7% unsecured note payable for \$50,000 to a shareholder. The note has a maturity date of February 28, 2015	50,000	-
In October 2014, the Company issued a 7% unsecured note payable for \$7,500 to a shareholder. The note has a maturity date of February 28, 2016	7,500	
In May 2013, the Company issued 10% unsecured note payable, totaling \$5,000 to one of its shareholders. The note has a maturity date of December 31, 2013. The note was repaid in January 2014	-	5,000
In July 2013, the Company issued a 10% unsecured note payable, totaling \$40,000 to one of its shareholders. The original maturity date of December 31, 2013 was extended to June 30, 2015.	40,000	40,000
In September 2013, the Company issued a 10% unsecured note payable, totaling \$15,000 to one of its shareholders. The original maturity date of June 30, 2014 was extended to June 30, 2015	15,000	15,000
In November 2013, the Company issued a 10% unsecured note payable, totaling \$45,000 to one of its shareholders. The note has a maturity date of June 30, 2014. The note was repaid in March 2014	-	45,000
Total notes payable	<u>\$ 404,300</u>	<u>\$ 105,000</u>
Current portion of notes payable	<u>\$ (338,700)</u>	<u>\$ (105,000)</u>
Long-term portion of notes payable	<u>\$ 65,600</u>	<u>\$ -</u>

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**Note 8 - Notes Payable (continued)**

From August to December of 2014, the Company issued \$349,300 in notes payable with interest rates of 7% per annum and maturity dates beginning in 2015 through 2016.

During 2014, note payable principal repayments totaled \$50,000.

In 2013 the Company issued \$235,800 in notes payable with interest rates ranging from 0% to 10% and maturity dates beginning in 2014 through 2015. \$25,000 of these notes payable were repaid in 2013.

During 2013, notes payable of \$185,280 and accrued interest of \$4,966, totaling \$190,248, were converted into 634,158 shares of common stock.

In conjunction with the notes payable issued in 2013, certain note holders received a total of 72,115 shares of common stock. The common stock was valued at \$0.30 per share, for a total of \$21,634 and was recorded as a debt discount that was fully amortized to interest expense during the year ending December 31, 2013.

During 2013, note payable principal repayments totaled \$73,946.

**Note 9 - Commitments and Contingencies**

The Company's principal executive office is in Austin, Texas. The Company has a non-cancelable operating lease agreement, which expires on August 31, 2017. The terms of the operating lease required the Company to pay a refundable lease deposit of \$16,806. The lease agreement also contained provisions for future rent increases. The difference between rent expense recorded and amount paid is recorded as deferred rent obligation, which is included in other accrued expenses in the accompanying balance sheet. The Company also leases office furniture under a non-cancelable operating lease which expires in July 2017.

Rent expense totaled \$123,219 and \$74,609 for the years ended December 31, 2014 and 2013, respectively.

Future minimum lease payments under the non-cancelable operating leases are as follows for the year ending December 31:

2015	\$	170,492
2016		173,101
2017		<u>114,259</u>
Total minimum lease payments	\$	<u>457,852</u>

***Litigation***

The Company from time to time may be involved in litigation relating to claims arising out of its ordinary course of business. Management believes that there are no claims or actions pending or threatened against the Company, the ultimate disposition of which would have a material impact on the Company's financial position, results of operations or cash flows.

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**Note 9 - Commitments and Contingencies (continued)**

***Risk Management***

The Company maintains various forms of insurance that the Company's management believes are adequate to reduce the exposure to these risks to an acceptable level.

**Note 10 - Preferred Stock**

The Company has authorized 15,000,000 shares of preferred stock and 55,000,000 shares of common stock with a par value of \$0.001 per share. At December 31, 2014 and 2013, the Company has 925,000 shares of Series A preferred stock outstanding. At December 31, 2014 and 2013, the Company has 454,547 shares of Series B preferred stock outstanding.

The preferred stock has the following characteristics:

The holders of the Series A preferred stock are entitled to vote upon all matters upon which holders of the common stock have the right to vote, and shall be entitled to the number of votes equal to the largest number of full shares of common stock into which the shares of preferred stock, pursuant to certain conversion and anti-dilution rights, could be converted on the appropriate record date. Each share of Series A preferred stock is convertible into one share of common stock, pursuant to certain anti-dilution rights. The Series A preferred stock is not redeemable. The holders of the Series A preferred stock are entitled to receive out the assets of the corporation legally available therefore, dividends at the rate of 5 percent of the stated value (\$1.00 per share), payable on an annual basis, either in cash or in shares of the Company's common stock, par value \$0.001 per share, based on the fair market value of the common stock on the date the dividend is declared, at the option of the Company. The holders of the Series A preferred stock will have preference in payment of dividends over the holders of common stock. Dividends on the Series A preferred stock are payable when declared by the board of directors. As of December 31, 2014, no dividends on the Series A preferred stock have been declared. The period for which dividends will be paid will be determined by the board of directors at the time of dividend declaration. The Certificate of Designation for the Series A preferred stock does not provide a specific provision for the accumulation of dividends; therefore no dividends or dividends payable have been recorded as of December 31, 2014. In the event of a liquidation, dissolution or winding-up of the Company, either voluntary or involuntary, the holders of the shares of Series A preferred stock then issued and outstanding are entitled to be paid out of the assets of the Company available for distribution to its shareholders, before any payment is made to the holders of shares of common stock or upon any other series of preferred stock of the Company that is junior to the Series A preferred stock, an amount per share equal to the stated value.

The holders of the Series B preferred stock are entitled to vote upon all matters upon which holders of the common stock have the right to vote, and shall be entitled to the number of votes equal to the largest number of full shares of common stock into which the shares of preferred stock, pursuant to certain conversion and anti-dilution rights, could be converted on the appropriate record date. Each share of Series B preferred stock is convertible into one share of common stock, pursuant to certain anti-dilution rights. The Series B preferred stock is not redeemable. The holders of the Company's Series B preferred stock are not entitled to receive any dividends. In the event of a liquidation, dissolution or winding-up of the Company, either voluntary or involuntary, the holders of the shares of the Company's Series A preferred stock and the Series B preferred stock then issued and outstanding are entitled to be paid out of the assets of the Company available for distribution to its shareholders on a pari passu basis, before any payment is made to the holders of shares of common stock or upon any other series of Preferred Stock of the Company that is junior to the Series A Preferred Stock and the Series B preferred stock, an amount per share equal to the stated value.

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**Note 11 - Stock Options**

At December 31, 2014 the Company had five stock option plans approved by the Board of Directors: the 2013 stock option plan, the 2011 stock option plan and the 2008 stock option plan, 2007 stock option plan and 2004 stock option plan (collectively, the “Plans”). The Company has reserved a total of 7,935,000 shares of common stock for issuance under the Plans. In accordance with the terms of the 2013 and 2011 stock option plans, the exercise price of each option granted may not be less than 85% of the fair market value of common stock at the date of grant, without prior approval of the Board of Directors. The 2008, 2007 and 2004 stock option plan requires that the exercise price of each option granted may not be less than the fair market value of common stock at the date of grant.

Options are exercisable according to the terms set out in the option agreement, not to exceed ten years. All options granted by the Company under its Plans are restricted stock awards under rules promulgated by the Securities and Exchange Commission. At December 31, 2014, under the Plans, the Company had 5,664,166 options available for issuance.

The fair value for options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Risk free interest rate	0.88 – 1.66%	0.88 – 1.24%
Expected dividend yield	0%	0%
Estimated volatility	47.0%	47.0%
Expected life	5 to 5.4 years	5 to 5.4 years

The weighted average fair value of options granted during 2014 and 2013 was \$0.08 and \$0.11 per share, respectively. The estimated fair value of options is amortized to expense over the vesting period.

A summary of the status of the Company’s stock option plan as of December 31, 2014 and changes during the years ended December 31, 2014 and 2013 are presented below.

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, December 31, 2012	4,409,583	0.34
Granted	2,182,162	0.30
Cancelled	(234,570)	0.20
Outstanding, December 31, 2013	<u>6,357,175</u>	<u>0.34</u>
Granted	546,086	0.19
Cancelled	(4,632,427)	0.34
Outstanding, December 31, 2014	<u>2,270,834</u>	<u>0.29</u>

**Scrypt, Inc.**  
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**Note 11 - Stock Options (continued)**

The following table summarizes information about options outstanding as of December 31, 2014:

<b>Exercise prices</b>	<b>Shares</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Vested Shares</b>	<b>Weighted Average Remaining Contractual Life (years)</b>
\$ 0.19	546,086	9.60	546,086	9.60
\$ 0.20	1,130,000	6.21	1,130,000	6.21
\$ 0.30	511,414	8.47	511,414	8.47
\$ 2.25	83,334	3.50	83,334	3.50
	2,270,834		2,270,834	

The Company recorded \$54,549 and \$270,277 in stock compensation expense for stock options granted for the years ended December 31, 2014 and December 31, 2013, respectively. As of December 31, 2014, there is no unrecognized grant date value of compensation expense for options. As of December 31, 2014, the Company has 2,187,500 common stock options outstanding that are “in-the-money” and have cumulative intrinsic value of \$260,569.

**Note 12 – Stock Awards**

During 2014 the Company issued 5,515,748 shares of common stock in exchange for the cancellation of 4,515,748 previously granted stock options. The Company recorded \$1,047,992 in stock compensation expense for the year ended December 31, 2014 which is recorded in selling, general and administrative expense in the accompanying consolidated statement of operations. The common stock issued was fully vested on the date of the grant.

**Note 13 - Common Stock**

At December 31, 2014, the Company has authorized 55,000,000 share of common stock, of which 46,049,614 are issued and outstanding.

On December 31, 2014 the Company issued 10,900,000 shares of common stock, valued at \$0.34 per share for the purchase consideration of Axacore, Inc. (See Note 4). The value of the shares issued was based on the estimated fair value of common stock on the date of issuance.

During 2014, the Company issued 5,515,748 shares of common stock in exchange for the cancellation of 4,515,748 previously granted stock options (See Note 12).

In February 2014 the Company issued 700,000 shares of common stock in exchange for the cancellation of the licensing agreement with SecureCare Technologies UK, Ltd, a related party entity partially controlled by one of the Company’s board members. The Company recorded \$133,000 of other expense during the year ended December 31, 2014. The value of the shares issued was based on the estimated fair value of common stock on the date of issuance.

**Scrypt, Inc.**  
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**Note 13 - Common Stock (continued)**

During 2014, the Company issued 880,000 shares of common stock and received \$264,000 in cash proceeds.

During 2013, the Company issued 1,854,320 shares of common stock and received \$554,046 in cash proceeds.

During 2013, the Company exchanged \$190,248 of notes payable and accrued interest for 634,158 shares of common stock.

**Note 14 - Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets (liabilities):		
Fixed assets and intangible assets	\$ (979,658)	\$ 48,286
Accrued expense and other	372,415	248,613
General business credit carryforwards	-	1,707
Net operating loss carryover	<u>7,321,471</u>	<u>6,365,515</u>
Total net deferred tax assets	6,714,228	6,664,121
Less valuation allowance	<u>(6,714,228)</u>	<u>(6,664,121)</u>
	\$ <u>-</u>	\$ <u>-</u>

The Company has established valuation allowances equal to the total gross deferred tax assets due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history. The valuation allowance increased by \$50,107 during the year ended December 31, 2014, which includes the impact of the acquisition of Axacore,

The Company's provision for income taxes differs from the expected tax expense (benefit) amount computed by applying the statutory federal income tax rate of 35% to income before income taxes as a result of the following:

	<u>2014</u>	<u>2013</u>
Tax at U.S. statutory rate of 35% and 34%, respectively	\$ (644,049)	\$ (213,464)
Permanent differences and other	2,015	5,183
State tax expense	2,704	3,334
Other temporary differences	599,625	-
Change in valuation allowance and other	<u>50,107</u>	<u>208,281</u>
Income tax provision (benefit)	\$ <u>10,402</u>	\$ <u>3,334</u>

As of December 31, 2014, the Company had federal net operating loss carryforwards of approximately \$20.9 million, which will expire in varying amounts beginning in 2025, if not utilized. Under the provisions

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**Note 14 - Income Taxes (continued)**

of the Internal Revenue Code, certain substantial changes in the Company's ownership may result in a limitation on the amount of net operating loss carryforwards which can be used in future years.

**Note 15 - Related Parties**

As of December 31, 2014 and 2013, the Company had \$130,000 and \$100,000, respectively, in principal amounts of related party notes payable outstanding. Accrued interest on the related party notes totaled \$3,837 and \$3,055 at December 31, 2014 and 2013, respectively. These related party notes payable have maturity dates ranging from May, 2015 through February, 2016.

On November 20, 2014 the Company loaned its Chief Executive Officer ("CEO") \$208,556 in funds to facilitate payment of federal income taxes owed by him resulting from imputed income he realized in conjunction with his 2014 Restricted Stock Award (see Note 12). As a result, the Company entered into a five year note receivable with its CEO which bears interest at a rate of 4.25% per annum. Interest only payments commence on a semi-annual basis on May 20, 2015 through November 20, 2019 at which time the principal is due. As of December 31, 2014 accrued interest income on the note receivable totaled \$1,028.

During the years ending December 31, 2014 and 2013, the Company recorded \$35,626 and \$21,137, respectively, of office rent and other expenses to Marldene Limited ("Marldene"). As of December 31, 2014 and 2013 the Company was indebted to Marldene in the amount of \$7,500 and \$10,257, respectively. Marldene is a stockholder of the Company and is controlled by Joseph Larter, a stockholder of the Company and a member of the Company's board of directors.

**Note 16 - Concentrations of Credit Risk**

The Company extends unsecured credit in the normal course of business to virtually all of its customers. The Company's accounts receivable are subject to potential credit risk. The Company has provided an allowance for doubtful accounts which reflects its estimates of uncollectible amounts. The maximum exposure assuming non-performance by the customers is the amount shown on the balance sheet at the date of non-performance.

At December 31, 2014, there were no customers that accounted for 10% or more of accounts receivable. Majority of accounts receivables are broken up between multiple customers.

At December 31, 2013, there were two customers that accounted for 10% or more of accounts receivable.

Cash is maintained in financial institutions which, at times, may exceed Federal Deposit Insurance Corporation insured amounts. However, the Company mitigates its risk by assuring that cash is maintained in high quality credit institutions.

**Note 17 - Earning (Loss) per Share**

Basic earnings (loss) per share is calculated based on the weighted average common shares outstanding during the period. Diluted earnings (loss) per share also gives effect to the dilutive effect of preferred stock, convertible debt, common stock options and common stock warrants. The Company does not present diluted earnings per share for years in which it incurred net losses as the effect is antidilutive.

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**Note 17 - Earning (Loss) per Share (continued)**

Loss per share of common stock are calculated as follows:

	For the years ended December 31,	
	2014	2013
<b>BASIC EARNINGS PER SHARE OF COMMON STOCK:</b>		
Net loss available to common stockholders	\$ (1,850,542)	\$ (631,562)
Weighted average common shares outstanding	30,946,526	26,086,438
Basic and diluted earnings per share of common stock	\$ (0.06)	\$ (0.02)
 <b>DILUTIVE COMMON STOCK OUTSTANDING:</b>		
Weighted average common shares outstanding	30,946,526	26,086,438
Effect of dilutive securities:		
Convertible Series A preferred stock	925,000	925,000
Convertible Series B preferred stock	454,547	454,547
Convertible notes payable	-	-
Common stock options outstanding	2,270,834	6,357,175
Weighted average common shares outstanding after effect of dilutive securities	34,596,907	33,823,160

**Note 18 - Subsequent Events**

The Company has issued \$50,000 in notes payable in 2015. In addition, the Company has repaid \$208,100 in principal amounts of notes payable that were outstanding on December 31, 2014.

In March 2015 the Company approved the issuance of the 2015 Stock Option Plan and reserved 3,000,000 shares to be issued under the plan.

During the period of March through July 2015, the Company granted 2,600,000 common stock options from the 2015 Stock Option Plan, with an exercise price of \$0.34 per share. The vesting period for the options granted ranged from vesting immediately to ratably over a 36 month period.

In April 2015 the Company amended its non-cancelable operating lease agreement for its principal executive office in Austin, Texas to include additional square footage. Lease payments on the additional square footage commence September 1, 2015. In conjunction with this lease amendment the Company extended the lease term one additional year, through August 31, 2018.

In May 2015, the Company entered into a line of credit agreement for up to \$300,000 with certain of the Company's shareholders. The participating shareholders will contribute to an escrow account that is not controlled by the Company, but is controlled by a member of the Company's board of directors. The funds in the escrow account will be made available to the Company as a supplemental resource for its working capital requirements through March 31, 2016. Funds deposited into the escrow account by the Company's shareholders will earn 8% per annum and funds actually drawn from the line of credit facility by the Company will earn an additional 10% per annum for the period in which the funds are used. As of July 9, 2015, the Company has received advances on the line of credit totaling \$175,000.

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**Note 18 - Subsequent Events (continued)**

The Company has evaluated subsequent events through July 9, 2015, the date the consolidated financial statements were available to be issued.