

FAVORED, INC. (AKA Empire Mobile Studios)
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 – NATURE OF OPERATIONS

Description of Business and History

The Company was incorporated as Urbanalien, Inc. in July 2001 as a Nevada corporation. Since inception, the Company was primarily involved in raising capital and working to establish Interactive kiosk terminals. In September, 2005, the Company filed Form 15 to de-register with the Securities and Exchange Commission. On December 22, 2015, a lawsuit was filed against Favored, Inc. in the District Court of Clark County, Nevada, entitled “In the Matter of Favored, Inc.” under case number A729331 by a Shareholder, Barton Hollow, LLC, along with an Application for Appointment of Custodian, after several attempts to locate prior management and reinstate the Company’s Nevada charter, which had been revoked. On March 10, 2016, the District Court of Clark County, Nevada entered an Order Granting Application for Appointment of Barton Hollow, LLC as Custodian of Favored, Inc. Barton Hollow, LLC (the “Custodian”) is an entity controlled by securities attorney Adam S. Tracy, its Managing Member. On April 19, 2016, the Company merged with Empire Mobile Studios, Inc. (“Empire”) in a transaction that resulted in the issuance of 300,000,000 shares of common stock in exchange for 100% of the common stock of Empire. For accounting purposes, the transaction was treated as a reverse merger since the acquired entity now forms the basis for operations and the transaction resulted in a change in control, with the acquired company electing to become the successor issuer for reporting purposes. On April 19, 2016, the Company also acquired Kryptos Communications, Inc. (“Kryptos”) in exchange for 5,000,000 shares of common stock. On July 21, 2016, the Custodian filed with the District Court of Clark County, Nevada a Report of Barton Hollow, LLC as Court Appointed Custodian of Favored, Inc., which stated that it had fully executed its duties charged pursuant to the Order, which had appointed it as Custodian. The accompanying financial statements have been prepared to reflect the consolidated assets, liabilities and operations of Kryptos and Empire.

Empire’s Chief Executive Officer, Craig Coaches, was appointed as the Company’s sole director, President and Chief Executive Officer to manage the development of Empire and Kryptos’ business. Both entities are involved in the development, marketing and promotion of applications for smart phones and tablets. The business model involves developing apps owned by the Company and under contract from third parties in addition to promoting apps developed and owned by others in exchange for a percentage of income generated.

In management’s opinion, all adjustments necessary for a fair statement of the results for the presented periods have been made. All adjustments made were of a normal recurring nature.

Going Concern

These financial statements have been prepared on a going concern basis, which implies the Company will continue to meet its obligations and continue its operations for the next fiscal year. Realization value may be substantially different from carrying values as shown and these financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. As of June 30, 2016, the Company has a working capital deficiency and has an accumulated deficit of \$854,759. The continuation of Favored, Inc. as a going concern is dependent upon the continued financial support from its

shareholders, the ability of the Company to obtain necessary equity financing to continue operations, and the attainment of profitable operations. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. 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 of a normal and recurring nature considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended June 30, 2016 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2016.

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions related to the useful life and recoverability of long-lived assets, stock-based compensation and deferred income tax asset valuation allowances. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less when acquired, to be cash equivalents.

Income Taxes

The Company accounts for income taxes under the provisions issued by the FASB which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company computes tax asset benefits for net operating losses carried forward. The potential benefit of net operating losses has not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

Loss Per Common Share

The Company reports net loss per share in accordance with provisions of the FASB. The provisions require dual presentation of basic and diluted loss per share. Basic net loss per share excludes the impact of common

stock equivalents. Diluted net loss per share utilizes the average market price per share when applying the treasury stock method in determining common stock equivalents. As of December 31, 2015 and June 30, 2016, there were no dilutive common stock equivalents outstanding.

Fair Value of Financial Instruments

Pursuant to ASC No. 820, "Fair Value Measurements and Disclosures", the Company is required to estimate the fair value of all financial instruments included on its balance sheet as of June 30, 2016 and December 31, 2015. The Company's financial instruments consist of cash and derivative liabilities. The Company considers the carrying value of such amounts in the financial statements to approximate their fair value due to the short-term nature of these financial instruments.

The Company adopted ASC No. 820-10 (ASC 820-10), Fair Value Measurements. ASC 820-10 relates to financial assets and financial liabilities. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP), and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions.

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard is now the single source in GAAP for the definition of fair value, except for the fair value of leased property as defined in SFAS 13. ASC 820-10 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions, about market participant assumptions, that are developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820-10 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs that are both significant to the fair value measurement and unobservable. These inputs rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs are developed based on the best information available in the circumstances and July include the Company's own data.)

Derivative Financial Instruments

Fair value accounting requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments, and measurement of their fair value for accounting purposes. In

determining the appropriate fair value, the Company uses the Black-Scholes option-pricing model. In assessing the convertible debt instruments, management determines if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring measurement. If the instrument is not considered conventional convertible debt, the Company will continue its evaluation process of these instruments as derivative financial instruments.

Once determined, derivative liabilities are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives. In addition, the fair value of freestanding derivative instruments such as warrants, are also valued using the Black-Scholes option-pricing model.

Recently Issued Accounting Standards

In July 2015, FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The amendments in this ASU do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of this Update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, this ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments in this ASU should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

In August 2015, FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” defers the effective date ASU No. 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance in ASU No. 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in Update 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU No. 2014-09. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

All other newly issued accounting pronouncements but not yet effective have been deemed either immaterial or not applicable.

NOTE 3 - GOODWILL

In connection with the acquisition of Empire Mobile Studios, the Company issued 300,000,000 shares of common stock in consideration for Empire's ability to utilize its network of developers and IP to overhaul and relaunch the Kryptos mobile application. The 300,000,000 shares had a par value of \$30,000. As Empire had no assets or liabilities on the date of acquisition, the value of the shares issued has been recorded as goodwill.

NOTE 4 – NOTES PAYABLE NON-RELATED PARTY TRANSACTIONS

On February 22, 2016 an interest bearing convertible demand note was issued to Securities Compliance Group, Ltd in the amount of \$33,343.60 for legal services rendered. The loan rate is 9 and one half percent (9.5%) and computed on an annual basis of 360 days.

On April 14, 2016 Stephen Carnes purchased 33% of the Securities Compliance Group, Ltd note and was issued a replacement note in the amount of \$11,114.40.

On April 14, 2016 Mercury Capital, LLC purchased 66% of the Securities Compliance Group, Ltd note and was issued a replacement note in the amount of \$22,228.80.

In connection with the acquisition of Kryptos the Company recorded amounts due to its directors of \$847,275, which related to amounts previously advanced to Kryptos by its officer and director for working capital purposes. As the note holder has not been an officer or director of the Company for more than 90 days, the notes are not considered related party liabilities. Of the total advanced, \$281,500 bears interest at 12% per annum as is past due. The balance does not bear interest and is due on demand.

NOTE 5 - COMMON STOCK

During the six months ended June 30, 2016, the Company had the following common stock transactions:

- 300,000,000 shares issued to acquire Empire Mobile Studios.
- 5,000,000 shares issued to acquire Kryptos Communications.

Each of these issuances was made pursuant to an exemption from registration under Rule 144 of the Securities Act of 1933.