Condensed Consolidated Financial Statements

Tapinator, Inc.

Quarter Ended March 31, 2016

Tapinator, Inc.
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Three months ended March 31, 2016
(Unaudited)

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Tapinator, Inc.
Condensed Consolidated Balance Sheets

	March 31, 2016	December 31, 2015
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,489,770	$ 1,487,196
Accounts receivable, net	349,974	429,565
Prepaid expenses	17,839	54,589
Total current assets	1,857,583	1,971,350
Property and equipment, net	17,245	13,714
Software development costs, net	790,405	746,936
Capitalized financing costs, net	54,264	71,959
Investments	19,086	19,086
Security deposits	14,052	14,052
Total assets	$ 2,752,637	$ 2,837,097
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 157,192	$ 197,031
Due to related parties	125,602	100,640
Senior convertible debenture, net of debt discount	1,144,110	391,186
Total current liabilities	1,426,904	688,857
Senior convertible debenture, net of debt discount	-	391,186
Total Liabilities	1,426,904	1,080,043
Stockholders' equity:		
Common Stock, $0.001 par value; 150,000,000 and 150,000,000 shares authorized at March 31, 2016 and December 31, 2015, respectively; 56,959,303 and 57,109,303 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	56,959	57,109
Additional paid-in capital	3,605,517	3,633,868
Accumulated deficit	(2,336,743)	(1,933,923)
Total stockholders' equity	1,325,733	1,757,054
Total liabilities and stockholders' equity	$ 2,752,637	$ 2,837,097

(See accompanying notes to the unaudited condensed consolidated financial statements)

Tapinator, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31, 2016	2015
Revenue	$ 848,613	$ 411,883
Operating expenses		
Cost of revenue excluding depreciation and amortization	263,738	133,260
Research and development	30,756	42,347
Marketing and public relations	30,701	12,507
General and administrative	308,453	112,088
Amortization of capitalized software development	188,910	48,953
Depreciation and amortization of other assets	19,162	488
Total expenses	841,720	349,643
Operating income	6,893	62,240
Other expenses		
Amortization of debt discount	323,843	37,500
Interest expense	81,495	15,754
Total other expenses	405,338	53,254
(Loss) before income taxes	(398,445)	8,986
Income taxes	4,375	3,146
Net (loss) income	$ (402,820)	$ 5,840
Net (loss) income per share:		
Basic	($0.01)	$0.00
Diluted	($0.01)	$0.00
Weighted average common shares outstanding:		
Basic	57,081,281	55,041,871
Diluted	57,081,281	55,819,919

(See accompanying notes to the unaudited condensed consolidated financial statements)

Tapinator, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net (loss) income	$ (402,820)	$ 5,840
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of capitalized software development	188,910	48,953
Depreciation and amortization of other assets	19,162	488
Amortization of debt discount	323,843	-
Amortization of original issue discount	37,895	6,403
Changes in operating assets and liabilities:		
Accounts receivable, net	79,591	(7,001)
Prepaid expenses	8,250	-
Security deposits	-	5,800
Accounts payable and accrued expenses	(39,839)	(20,729)
Interest on promissory notes	-	9,351
Due to related parties	24,962	(17,055)
Net cash provided by operating activities	239,954	32,050
Cash flows from investing activities:		
Capitalized software development costs	(232,383)	(144,537)
Purchase of property, plant and equipment	(4,998)	-
Net cash (used in) investing activities	(237,381)	(144,537)
Cash flows from financing activities:		
Issuance of promissory notes	-	24,000
Purchase of promissory notes	-	37,500
Net cash (used in) provided by financing activities	-	61,500
Net change to cash and cash equivalents	2,574	(50,987)
Cash and cash equivalents at beginning of period	1,487,196	121,740
Cash and cash equivalents at end of period	$ 1,489,770	$ 70,753
Supplemental disclosure of cash flow information:		
Cash paid for interest	*$ 44,800*	*$ -*
Cash paid for taxes	*$ 4,375*	*$ 596*

(See accompanying notes to the unaudited condensed consolidated financial statements)

NOTE 1 — ORGANIZATION AND DESCRIPTION OF BUSINESS

Tapinator, Inc. ("Tapinator" or the "Company") designs, develops, and publishes mobile games on the iOS, Google Play, and Amazon platforms. Tapinator's owned and operated portfolio includes over 200 mobile gaming titles that have achieved over 200 cumulative million downloads, primarily within the Simulation, Arcade, Role Playing, Casino and Sports genres. A number of these titles have risen to the top of the mobile leaderboard charts and have been featured by the Apple, Google, and Amazon App Stores. Tapinator generates revenues through the sale of advertisements within its games, the sale of paid downloadable games, and the sale of additional in-game content within its games. Founded in 2013, Tapinator is headquartered in New York, with product development teams located in Germany, Pakistan, Indonesia, Canada, and the United States.

The Company was originally incorporated on December 9, 2013 in the state of Delaware. On December 12, 2013, the Company merged with Tapinator, Inc., a Nevada Corporation. The Company was the surviving corporation from this merger. On June 16, 2014, the Company executed a securities exchange agreement with the members of Tapinator LLC, a New York limited liability company, whereby the Company issued 36,700,000 shares of its common stock (representing 80% of its then common stock outstanding after giving effect to the transaction) to the members of Tapinator LLC in exchange for 100% of the outstanding membership interests of Tapinator LLC. The transaction resulted in a business combination and a change of control within its business purpose. For accounting and financial reporting purposes, Tapinator LLC was considered the acquirer and the transaction was treated as a reverse merger.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in conformity with United States generally accepted accounting principles ("GAAP"). The consolidated financial statements include the operations of the Company and its wholly-owned subsidiaries, Tapinator, LLC and Tapinator IAF, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company's audited financial statements and related notes as contained in audited financial statements for the year ended December 31, 2015. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three months ended March 31, 2016 are not necessarily indicative of the results of operations to be expected for the full year.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 financial statements as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include assumptions used in the fair value of revenue recognition, platform and advertising fees and related costs of revenue, long-lived assets, stock-based compensation, and the fair value of other equity and debt instruments.

Revenue Recognition

The Company derives revenue from the three gaming platforms on which it currently markets its mobile games in the form of paid downloads of its games and the sale of additional in-game content; and from various advertising networks in the form of advertising placements within its mobile games. The Company recognizes revenue when all of the following conditions are satisfied: there is persuasive evidence of an arrangement; the service is delivered to the player; the collection of fees is reasonably assured; and the amount of fees to be paid by the player is fixed or determinable.

The Company recognizes mobile game revenue based on the gross amount paid by the player because the Company is the primary obligor and has the contractual right to determine the price to be paid by the player. The Company records the related platform fees and advertising network revenue share as expenses in the period incurred.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

In accordance with Accounting Standards Codification Topic ("ASC") 605-45, *Revenue Recognition: Principal Agent Considerations*, the Company evaluates its agreements with the gaming platforms and ad networks in order to determine whether or not it is acting as the principal or as an agent when selling its games or when selling advertisements within its games, which it considers in determining if revenue should be reported gross or net. Key indicators that the Company evaluates to reach this determination include:

- the terms and conditions of the Company's contracts with the gaming platforms and ad networks;
- the party responsible for determining the type, category and quantity of the methods to generate game revenue;
- whether the Company is paid a fixed percentage of the arrangement's consideration or a fixed fee for each game, transaction, or advertisement;
- the party which sets the pricing with the end-user, and has the credit and inventory risk; and
- the party responsible for the fulfillment of the game or serving of advertisements and that determines the specifications of the game or advertisement.

Based on the evaluation of the above indicators, the Company has determined that it is generally acting as a principal and is the primary obligor to end-users for its games distributed on the gaming platforms and for advertisements served by the ad networks. Therefore, the Company recognizes revenue related to these arrangements on a gross basis, when the necessary information about the gross amounts or platform fees charged, before any adjustments, are made available by the gaming platforms and ad networks.

Accounts Receivable and Allowance for Doubtful Accounts

The Company monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information. The allowance for doubtful accounts is estimated based on an assessment of the Company's ability to collect on customer accounts receivable. There is judgment involved with estimating the allowance for doubtful accounts and if the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against revenues. The Company writes-off accounts receivable against the allowance when it determines a balance is uncollectible and no longer actively pursues its collection. As of March 31, 2016 and December 31, 2015, based upon the review of the outstanding accounts receivable, the Company has determined that an allowance for doubtful accounts is not required.

Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. As of March 31, 2016, the total amount exceeding was $989,770.

The Company derives revenue from gaming platforms and advertising networks which individually may contribute 10% or more of the Company's revenues in any given year. For the quarter ended March 31, 2016, revenue derived from four advertising networks comprised 78% of such period's total revenue. For the quarter ended March 31, 2015 revenue derived from one gaming platform and two advertising networks comprised 72% of such period's total

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

revenue. As of March 31, 2016 and December 31, 2015, the receivable balances from two advertising networks comprised 64% and 69% of the Company's total accounts receivable balances, respectively.

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference, less any amount realized from disposition, is reflected in earnings. Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	remaining term of lease

Capitalized Software Development Costs

In accordance with ASC 985-20, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," the Company capitalizes certain costs related to the development of new software products or the enhancement of existing software products for use in our product offerings. These costs are capitalized from the point in time that technological feasibility has been established, as evidenced by a working model or detailed working program design to the point in time that the product is available for general release to customers. Capitalized development costs are amortized on a straight-line basis over the estimated economic lives of the products, beginning when the product is placed into service.

Research and development costs incurred prior to establishing technological feasibility are charged to expense as incurred. The Company periodically evaluates whether events or circumstances have occurred that indicate that the remaining useful lives of the capitalized software development costs should be revised or that the remaining balance of such assets may not be recoverable.

Impairment of Long-lived Assets

The Company regularly reviews property, equipment, software development costs and other long-lived assets for possible impairment. This review occurs annually or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Based upon management's assessment, there were no indicators of impairment of the Company's property, equipment and software development costs during the three months ended March 31, 2016.

In general, investments in which the Company owns less than 20 percent of an entity's equity interest or does not hold significant influence over the investee are accounted for under the cost method. Under the cost method, these investments are carried at the lower of cost or fair value. The Company periodically assesses its cost method investments for impairment. If determination that a decline in fair value is other than temporary, the Company will write-down the investment and charge the impairment against operations. At March 31, 2016 and December 31, 2015, the carrying value of two investments totaling $19,086 were recorded at their original cost.

Derivative Instrument Liability

The Company accounts for derivative instruments in accordance with ASC 815, *Derivatives and Hedging,* which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts, and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of relationships designated are based on the exposures hedged. At March 31, 2016 and December 31, 2015, the Company did not have any derivative instruments that were designated as hedges.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are measured at fair value are reported using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date of identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

As of March 31, 2016 and December 31, 2015, the Company did not identify any non-recurring assets and liabilities that are required to be presented in the balance sheets at fair value in accordance with ASC 825, *Financial Instruments.*

Cost of Revenue (excluding amortization of software development costs)

Cost of revenue includes primarily platform and advertising network fees, licensing and royalty fees, and data hosting costs. The Company, along with all mobile application publishers, is required to pay platform fees to Apple, Google and Amazon equal to approximately 30% of gross revenue. The Company is also required to pay a revenue share of approximately 30% to advertising networks and similar service providers.

Stock-Based Compensation

The Company measures the fair value of stock-based compensation issued to non-employees using the stock price observed in the arms-length private placement transaction nearest the measurement date (for stock transactions), or the fair value of the award (for non-stock transactions), which are considered to be more reliably determinable measures of fair value than the value of the services being rendered. The measurement date is the earlier of (1) the date at which commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

Basic and Diluted Net Income (Loss) per Share Calculations

Net income (loss) per share is shown under two calculations -- basic and diluted. Basic net income (loss) per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted net income (loss) per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. For the three months ended March 31, 2016, potentially dilutive securities excluded from the computation of basic and diluted net (loss) per share include 10,926,829 potentially convertible shares related to the senior secured debentures, 300,000 options and 21,853,658 common stock warrants. For the three months ended March 31, 2015 the Company had no potentially dilutive securities that needed to be excluded from the computation of basic and diluted net income per share.

Reclassification

Certain reclassifications have been made to the prior years' data to conform to the current year presentation. These reclassifications had no effect on reported income (losses).

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-01, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this guidance.

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs, ("*the Update") as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The FASB received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit. To simplify presentation of debt issuance costs, the amendments in the Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the Update. For public business entities, the amendments in the Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the applicability of the Update.

In August 2014, FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern,* which provides guidance to reduce diversity in the timing and content of footnote disclosures. The amendment requires management to assess the Company's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The Company has to define the term of substantial doubt, which has to be evaluated every reporting period including interim periods. Management has to provide principles for considering the mitigating effect of its plan, and disclose when substantial doubt is alleviated as well as when it is not alleviated. The Company is required to assess management's plan for a period of one year after the financial statements are issued (or available to be issued). The amendment is effective for annual periods ending after December 15, 2016. Early adoption is permitted. The Company is currently assessing the impact of implementing the new guidance.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, which creates ASC 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, ASU 2014-09 supersedes the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts,* and creates new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. In summary, the core principle of ASC 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted. Therefore, the amendments in ASU 2014-09 will become effective for the Company as of the beginning of the 2017 fiscal year. The Company is currently assessing the impact of adoption.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements.

NOTE 3 — PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Leasehold improvements	$ 1,144	$ 1,144
Furniture and fixtures	7,338	7,338
Computer equipment	15,009	10,011
Property and equipment, cost	23,491	18,493
Less: accumulated depreciation	(6,246)	(4,779)
Property and equipment, net	$ 17,245	$ 13,714

During the three months ended March 31, 2016 and March 31, 2015, depreciation expense was $1,467 and $488, respectively.

NOTE 4—CAPITALIZED SOFTWARE DEVELOPMENT

Capitalized software development costs at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016	December 31, 2015
Capitalized software development, cost	1,479,380	1,246,997
Less: accumulated amortization (a)	(688,970)	(500,061)
Capitalized software development, net	$ 790,409	$ 746,936

(a) During the three months ended March 31, 2016 and March 31, 2015, amortization expense related to capitalized software was $188,910 and $48,953, respectively.

NOTE 5 — RELATED PARTY TRANSACTIONS

The Company utilizes the services of an affiliated entity of an officer and major shareholder for the development of certain of its mobile games. Amounts incurred by the Company for such development services, which were primarily attributed to capitalized software development costs, for the three months ended March 31, 2016 and March 31, 2015 were $171,752 and $82,977, respectively. As of March 31, 2016 and December 31, 2015, the Company had balances due to related parties related primarily to the software development services of $125,602 and $100,640, respectively.

NOTE 6 — SENIOR SECURED CONVERTIBLE DEBENTURE

In June 2015, the Company raised $2.0 million through the sale of a $2.24 million 8% senior secured convertible debenture due January 1, 2017 with an initial conversion price of $0.205 per share. The conversion price is adjustable for any subsequent equity transactions with an effective price per share lower than the conversion price, but not lower than $0.10 per share. The secured convertible debenture has periodic redemption amounts of $560,000 on July 1, 2016 and October 1, 2016, respectively with the remainder due on January 1, 2017. In addition, five-year Series A warrants were issued to purchase 10.9 million shares at an exercise price of $0.30 per share, and five-year Series B callable warrants were issued to purchase 10.9 million shares at an exercise price of $0.30 per share, which are exercisable only upon a payment default. The conversion price is adjustable for any subsequent equity transactions with an effective price per share lower than the conversion price, but not lower than $0.10 per share. The debenture is collateralized by a first security interest in all assets of the Company and its subsidiaries. Additionally, certain officers, directors and other affiliates of the Company have pledged 29 million shares as security for the debenture.

The Company recognized an embedded beneficial conversion feature of $2.0 million, which was recorded as a debt discount to be amortized over the life of the debenture. During the three months ended March 31, 2016, $323,843 was charged to amortization of the debt discount related to the senior secured convertible debenture.

The Company recognized an original issue discount of $240,000, which was recorded as a debt discount to be amortized over the life of the debenture. During the three months ended March 31, 2016, $37,895 was charged to interest expense related to the senior secured convertible debenture.

During the year ended December 31, 2015 the company capitalized $110,494 in finance fees related to the convertible debenture. The related amortization expense for the three months ended March 31, 2016 was $17,695.

We evaluated the financing transactions in accordance with ASC 470, *Debt with Conversion and Other Options*, and determined that the conversion feature of the convertible promissory note was afforded the exemption for a conventional convertible instrument due to the floor on its conversion rate. The note has an explicit limit on the number of shares issuable so it meets the conditions set forth in current accounting standards for equity classification. The debt was issued with non-detachable conversion options that are beneficial to the investors at inception, because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The accounting for the beneficial conversion feature requires that the beneficial conversion feature be recognized by allocating the intrinsic value of the conversion option to additional paid-in-capital, resulting in a discount on the convertible notes, which is being amortized and recognized as expense.

Senior secured convertible debenture payable as of March 31, 2016 and December 31, 2015 were comprised of the following:

	March 31, 2016	December 31, 2015
Principal balance outstanding	$ 2,240,000	$ 2,240,000
Less:		
Debt discount – beneficial conversion feature	(982,206)	(1,306,050)
Debt discount – original issue discount	(113,684)	(151,578)
Principal balance outstanding, net	$ 1,144,110	$ 782,372

NOTE 7 — STOCKHOLDERS' EQUITY

At March 31, 2016, the authorized capital of the Company consisted of 150,000,000 shares of common stock, par value $0.001 per share, and 1,532,500 shares of blank check preferred stock.

In August 2015, the Company retained the services of a consultant whose compensation included a restricted stock grant of 300,000 shares of the Company's common stock valued at $57,000 on the date of grant which was partially amortized over the twelve-month term of the service agreement beginning in 2015. On March 14, 2016, the agreement was cancelled and 150,000 shares of the Company's common stock valued at $28,500 was instructed to be returned to the Company.

NOTE 8 —WARRANTS

For the three months ended March 31, 2016, no warrants were issued. During the year ended December 31, 2015, the Company granted warrants in connection with the senior secured convertible debenture described in Note 6. The warrant terms are 5 years expiring on June 19, 2020.

	2016	
	Number of Warrants	Weighted average exercise price
Outstanding, January 1, 2016	21,853,658	$ 0.30
Granted	-	-
Exercised	-	-
Expired	-	-
Outstanding, March 31, 2016	21,853,658	$ 0.30
Exercisable at the end of period (a)	10,926,829	$ 0.30

(a) 10,926,829 warrants are exercisable only upon a payment default of the senior secured convertible debenture described in Note 6.

NOTE 9—OPTIONS

In January 2016 and pursuant to the 2015 Equity Incentive Plan, the Company granted a non-executive member of the Company's Board of Directors an option to purchase 300,000 shares of the Company's common stock at an exercise price equal to $0.33 per share. Such option shall vest in eight quarterly installments of 37,500 shares at the end of each quarterly anniversary of the grant date, contingent upon the grantee's continual service as a member of the Board of Directors as of each vesting installment date.

	2016	
	Number of Options	**Weighted average exercise price**
Outstanding, January 1, 2016	-	$ -
Granted	300,000	0.33
Exercised	-	-
Expired	-	-
Outstanding, March 31, 2016	300,000	$ 0.33
Exercisable at the end of period	37,500	$ 0.33

NOTE 10—SUBSEQUENT EVENTS

Management has evaluated subsequent events in accordance with the requirements of ASC 855, *Subsequent Events*, and has determined that there are no subsequent events that require disclosure.