Consolidated Financial Statements

Tapinator, Inc.

Years Ended December 31, 2017 and 2016

Tapinator, Inc.
Table of Contents

Tapinator and other trademarks or service marks of Tapinator appearing in this report are the property of Tapinator, Inc. Trade names, trademarks and service marks of other companies appearing in this report are the property of their respective holders.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Tapinator, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tapinator, Inc. ("the Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Liggett & Webb, P.A.

We have served as the Company's auditor since 2013.

New York, New York
March 30, 2018

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward looking statements. All statements, other than statements of historical fact, made in this Annual Report are forward looking. Examples of forward-looking statements include statements related to industry prospects, our future economic performance including anticipated revenues and expenditures, results of operations or financial position, and other financial items, our business plans and objectives, including our intended product releases, and may include certain assumptions that underlie the forward-looking statements. Forward-looking statements often include words such as "outlook," "projected," "intends," "will," "anticipate," "believe," "target," "expect," and statements in the future tense are generally forward-looking.

We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. The achievement or success of the matters covered by such forward-looking statements involves significant risks, uncertainties and assumptions. Moreover, we operate in a very competitive and rapidly changing environment and industry. New risks may also emerge from time to time. It is not possible for our management to predict all of the risks related to our business and operations, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report may not occur and actual results could differ materially and adversely from those anticipated, predicted or implied in the forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur, and reported results should not be considered as an indication of future performance. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Except as required by law, we undertake no obligation to update any forward-looking statements for any reason to conform these statements to actual results or to changes in our expectations.

Tapinator, Inc.
Consolidated Balance Sheets
As of December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 246,755	$ 590,461
Accounts receivable	333,090	326,607
Prepaid expenses	177,829	53,089
Total current assets	757,674	970,157
Property and equipment, net	14,412	20,429
Software development costs, net	1,026,548	1,174,377
Investments	5,000	5,000
Security deposits	22,698	22,698
Total assets	$ 1,826,332	$ 2,192,661
Liabilities and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 155,366	$ 165,744
Due to related parties	100,115	89,697
Deferred Revenue	442,831	85,402
Accrued interest	86,400	95,760
Senior convertible debenture, net of debt discount (current portion)	1,316,882	158,682
Total current liabilities	2,101,594	595,285
Senior convertible debenture, net of debt discount (less current portion)	-	476,045
Total Liabilities	2,101,594	1,071,330
Commitments and Contingencies (see Note 7)	-	-
Stockholders' (Deficit) Equity:		
Preferred stock, $0.001 par value; 1,532,500 shares authorized within any series of designation		
Series A convertible preferred stock, $0.001 par value; 840 shares designated at December 31, 2017 and December 31, 2016; 420 shares issued and outstanding at December 31, 2017 and December 31, 2016,	1	1
Series A-1 convertible preferred stock, $0.001 par value; 1,500 and 0 shares designated at December 31, 2017 and December 31, 2016 respectively; 1,500 and 0 shares issued and outstanding at December 31, 2017 and December 31, 2016, respectively	2	-
Common stock, $0.001 par value; 150,000,000 shares authorized; 59,459,303 and 56,959,303 shares issued and outstanding at December 31, 2017 and December 31, 2016, respectively	59,459	56,959
Additional paid-in capital	7,535,969	5,344,918
Accumulated deficit	(7,970,693)	(4,280,547)
Stockholders' (deficit) equity attributable to Tapinator, Inc.	(375,262)	1,121,331
Non-controlling interest	100,000	-
Total stockholders' (deficit) equity	(275,262)	1,121,331
Total liabilities and stockholders' (deficit) equity	$ 1,826,332	$ 2,192,661

(See accompanying notes to the consolidated financial statements)

Tapinator, Inc.
Consolidated Statements of Operations
For The Years Ended December 31, 2017 and 2016

	2017	2016
Revenue	$ 3,141,360	$ 3,731,773
Operating expenses		
Cost of revenue excluding depreciation and amortization	1,033,452	1,168,176
Research and development	140,772	81,200
Marketing and public relations	518,099	472,351
General and administrative	1,374,592	1,203,796
Impairment of capitalized software	256,310	-
Amortization of software development costs	709,615	767,187
Depreciation and amortization of other assets	21,927	50,275
Total expenses	4,054,767	3,742,985
Operating loss	(913,407)	(11,212)
Other expenses		
Amortization of debt discount	1,404,254	1,105,869
Interest expense, net	533,511	451,990
Loss on extinguishment of debt	830,001	770,526
Total other expenses	2,767,766	2,328,385
Loss before income taxes	(3,681,173)	(2,339,597)
Income taxes	8,973	7,027
Net loss	$ (3,690,146)	$ (2,346,624)
Net loss per share:		
Basic / Diluted	($0.06)	($0.04)
Weighted average common shares outstanding:		
Basic / Diluted	58,478,481	56,989,631

(See accompanying notes to the consolidated financial statements)

Tapinator, Inc.
Consolidated Statement of Stockholders' (Deficit) Equity
For The Years Ended December 31, 2017 and 2016

	Common Stock		Series A Preferred Stock		Series A-1 Preferred Stock		Series B Preferred Stock		Additional	Accumulated	Non-controlling	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In-Capital	Deficit	Interest	TOTAL
Balances at December 31, 2015	**57,109,303**	**$ 57,109**	**-**	**$ -**	**-**	**$ -**	**-**	**$ -**	**$ 3,633,868**	**$ (1,933,923)**	**$ -**	**$ 1,757,054**
Common stock redemption and cancellation	(150,000)	(150)	-	-	-	-	-	-	(28,350)	-	-	(28,500)
Stock based compensation	-	-	-	-	-	-	-	-	59,401	-	-	59,401
Issuance of Series A preferred stock	-	-	420	1	-	-	-	-	419,999	-	-	420,000
Debt discount related to conversion feature of convertible debenture and warrant extension	-	-	-	-	-	-	-	-	1,260,000	-	-	1,260,000
Net loss	-	-	-	-	-	-	-	-	-	(2,346,624)	-	(2,346,624)
Balances at December 31, 2016	**56,959,303**	**$ 56,959**	**420**	**$ 1**	**-**	**-**	**-**	**-**	**$ 5,344,918**	**$ (4,280,547)**	**-**	**$ 1,121,331**
Common shares issued for cash related to stock purchase agreement	2,500,000	2,500	-	-	-	-	-	-	347,500	-	-	350,000
Stock based compensation	-	-	-	-	-	-	-	-	173,552	-	-	173,552
Shares issued Series A-1 preferred stock related to warrant exchange	-	-	-	-	1,500	2	-	-	659,998	-	-	660,000
Debt discount related to conversion feature of convertible debenture and warrant exchange	-	-	-	-	-	-	-	-	1,010,001	-	-	1,010,001
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	-	100,000	100,000
Net loss	-	-	-	-	-	-	-	-	-	(3,690,146)	-	(3,690,146)
Balances at December 31, 2017	**59,459,303**	**$ 59,459**	**420**	**$ 1**	**1,500**	**$ 2**	**-**	**$ -**	**$ 7,535,969**	**$ (7,970,693)**	**$ 100,000**	**$ (275,262)**

(See accompanying notes to the consolidated financial statements)

Tapinator, Inc.
Consolidated Statements of Cash Flows
For The Years Ended December 31, 2017 and 2016

	Year Ended December 31, 2017	2016
Cash flows from operating activities:		
Net (loss)	$ (3,690,146)	$ (2,346,624)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of software development costs	709,615	767,187
Depreciation and amortization of other assets	21,927	50,275
Amortization of debt discount	1,404,254	1,105,869
Amortization of original issue discount	341,577	270,517
Loss on extinguishment of debt	830,001	770,526
Stock based compensation	173,552	30,902
Impairment of capitalized software	256,310	-
Decrease (increase) in assets		
Accounts receivable	(6,483)	102,958
Prepaid expenses	(124,741)	1,500
Security deposits	-	(8,646)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(8,846)	64,470
Deferred Revenue	357,429	85,402
Due to related parties	10,418	(10,943)
Net cash provided by operating activities	274,867	883,393
Cash flows from investing activities:		
Capitalized software development costs	(818,094)	(1,194,628)
Purchase of property, plant and equipment	(3,979)	(14,585)
Investment write-off	-	14,085
Net cash (used in) investing activities	(822,073)	(1,195,128)
Cash flows from financing activities:		
Proceeds from issuance of common stock	350,000	-
Proceeds from capital contribution from non-controlling interest	100,000	-
Senior convertible debenture principal payment	(234,000)	(560,000)
Payment for senior convertible debenture financing costs	(12,500)	(25,000)
Net cash provided by (used in) financing activities	203,500	(585,000)
Net change to cash and cash equivalents	(343,706)	(896,735)
Cash and cash equivalents at beginning of period	590,461	1,487,196
Cash and cash equivalents at end of period	$ 246,755	$ 590,461
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 191,517	$ 89,600
Cash paid for taxes	$ 6,550	$ 7,027
Non-cash investing and financing activities:		
Series A & A-1 convertible preferred stock issued related to debt extinguishment	$ 660,000	$ 420,000
Debt discount related to conversion feature of convertible debt and warrant exchange	$ 1,010,001	$ 1,260,000

(See accompanying notes to the consolidated financial statements)

NOTE 1 — ORGANIZATION AND DESCRIPTION OF BUSINESS

Tapinator, Inc. ("Tapinator" or the "Company") develops and publishes mobile games and applications on the iOS, Google Play, Amazon and Ethereum platforms. Tapinator's portfolio includes over 300 mobile gaming titles that, collectively, have achieved over 450 million player downloads, including notable games such as ROCKY™, Video Poker Classic, Solitaire Dash and Dice Mage. Tapinator generates revenues through the sale of branded advertising and via consumer transactions, including in-app purchases. Founded in 2013, Tapinator is headquartered in New York, with product development teams located in the United States, Germany, Bulgaria, Pakistan, Indonesia and Canada.

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.

The Company currently develops two types of games within its mobile games business. Tapinator's Rapid-Launch Games are developed and published in significant quantity. These are titles that are built economically and rapidly based on a series of internally developed, expandable and re-useable game engines. These games are currently published under the Tapinator, Tap2Play, TapSim Game Studio and TopTap Games brands. The Company's Full-Featured Games are unique products with high production values and high revenue potential, developed and published selectively based on both original and licensed IP. These titles require significant development investment and have, in the opinion of management, the potential to become well-known and long-lasting, successful mobile game franchises. These games are currently published exclusively under the Tapinator brand.

In December 2017, the Company formed a new subsidiary, Revolution Blockchain, LLC, to develop, publish and invest in games and applications that leverage blockchain technology. The first two products from this subsidiary are currently under development and are both expected to be released into live beta by the second quarter of 2018. These products will leverage blockchain technology for both payment (i.e. the purchase & sale of virtual assets) and the storage of these assets via nonfungible tokens that live on the blockchain.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying 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, Tap2Play, LLC, and Tapinator IAF, LLC, and its majority-owned subsidiary Revolution Blockchain, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

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 recognition of revenue, realization of 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.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Company derives revenue from the three gaming platforms on which it currently markets its mobile games in the form of app store transactions and from various advertising networks in the form of branded advertising placements within its mobile games.

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 advertising networks to determine whether it is acting as the principal or as an agent when selling its games or when selling premium in-game content or 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 advertising networks and has the contractual right to determine the price to be paid by the player. 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 advertising networks. The Company records the related platform fees and advertising network revenue share as expenses in the period incurred.

The Company recognizes revenue when all of the following conditions are satisfied: there is persuasive evidence of an arrangement; the content or 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. For purposes of determining when the service has been provided to the player, we have determined that an implied obligation exists to the paying player to continue displaying the purchased premium in-game content over its estimated life or until it is consumed. Accordingly, we categorize our premium in-game content as either consumable or durable virtual goods. Consumable virtual goods are items consumed at a predetermined time or otherwise have limitations on repeated use, while durable virtual goods are items, such as virtual currency, that remain in the game for as long as the player continues to play. Our revenues from consumable virtual goods have been insignificant since the Company's formation.

We recognize revenue, and the associated costs, from the sale of durable virtual goods ratably over the estimated average playing period of paying players for the applicable game, which represents our best estimate of the average life of durable virtual goods. For the sale of consumable virtual goods, we recognize revenue, and the associated costs, as the goods are consumed. If we do not have the ability to differentiate revenue attributable to durable virtual goods from consumable virtual goods for a specific game, we recognize revenue and the associated costs on the sale of durable and consumable virtual goods for that game ratably over the estimated average period that paying players typically play that game.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

On an annual basis, we determine the estimated average playing period for paying players by genre across a sample of our games beginning at the time of a player's first purchase in that game and ending on a date when that paying player is no longer playing the game. To determine when paying players are no longer playing a given game, we measure the populations of paying players (the "daily cohort") from the date of their first installation of the game and track each daily cohort to understand the number of players from each daily cohort who played the game after their initial purchase. For titles where we have one or more years of paying players' historical usage data ("Tracked Titles"), we compute a weighted average playing period for paying users using this dataset.

For titles where we have less than one year of paying player data ("New/Untracked Titles"), we use a linear interpolation model on a representative sample of our games within each genre to estimate the average playing period of paying users. Using actual retention data for all players from these games for the period between game installation and up to 90 days thereafter, this data is inputted into a linear interpolation curve to estimate an average playing period for these titles. These calculated curves and their associated one-year average playing periods are mapped against the corresponding curves and associated average one-year playing periods for the Tracked Titles. Based on this mapping, the average playing period of paying users for Tracked Titles is then indexed up or down accordingly, and then applied against the New/Untracked Titles within the sample.

We then compute revenue-based weighted averages of the estimated playing period across all of the games in the sample, by genre, to arrive at the overall weighted average playing period of paying users for each of our major game genres, rounded to the nearest month. As of the fourth quarter of 2017 (our most recent determination date), the estimated weighted average life of our durable virtual goods was 16 months for our Casino / Card games, 2 months for our RPG / Arcade games and 2 months for our Rapid Launch / Simulation games. The estimated weighted average life of our durable virtual goods across all of our games was 13 months as of the fourth quarter of 2017.

While we believe our estimates to be reasonable based on available game player information and based on the disclosed methodologies of larger publicly reporting mobile game companies, we may revise such estimates in the future based on changes in the operational lives of our games, and based on changes in our ability to make such estimates. Any future adjustments arising from changes in the estimates of the lives of these virtual goods would be applied to the then current quarter, and prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns compared to historical titles. Any changes in our estimates of useful lives of these virtual goods may result in revenues being recognized on a basis different from prior periods' and may cause our operating results to fluctuate.

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 December 31, 2017 and 2016, based upon the review of the outstanding accounts receivable, the Company has determined that an allowance for doubtful accounts is not required.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the Company's financial statements, 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 of $250,000. To reduce its risk associated with the failure of such financial institution, the Company evaluates at least annually the rating of the financial institution in which it holds deposits. As of December 31, 2017, the total amount exceeding such limit was $0.

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 year ended December 31, 2017, revenue derived from two gaming platforms comprised 44% of such period's total revenue and revenue derived from three advertising networks comprised 36% of such period's total revenue. For the year ended December 31, 2016, revenue derived from two gaming platforms comprised 17% of such period's total revenue and revenue derived from four advertising networks comprised 72% of such period's total revenue.

As of December 31, 2017, the receivable balance from two advertising networks comprised 27% of the Company's total accounts receivable balance and the receivable balance from two gaming platforms comprised 49% of the Company's total accounts receivable balance. As of December 31, 2016, the receivable balance from three advertising networks comprised 57% of the Company's total accounts receivable balance and the receivable balance from two gaming platforms comprised 24% of the Company's total accounts receivable balance.

Property and Equipment

Property and equipment are stated at cost. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that extend the useful life of the assets are capitalized. 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:

	Estimated Useful Life:
Computer equipment	3 Years
Furniture and Fixtures	5 Years
Leasehold improvements	Remaining term of lease

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. Software 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.

Prior to March 31, 2016, the Company amortized its Rapid-Launch Game software development costs over 18-months. After an internal re-assessment of estimated economic lives, the Company discovered that the useful lives and expected revenue life of its Rapid-Launch software surpassed 18 months. Therefore, all new Rapid-Launch software development

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Software Development Costs (Continued)

costs incurred after March 31, 2016 are amortized over 36 months. The software development costs incurred prior to March 31, 2016 will continue to amortize under an 18-month basis until they are fully amortized.

Prior to March 31, 2016, the Company generally amortized its Full-Featured Game software development costs over 18 months. After March 31, 2016, the amortization period of its Full-Featured Game software development costs have been determined based on the lesser of their expected revenue lives or the agreement terms with third party IP licensors, typically ranging from 2 to 5 years. The software development costs incurred prior to March 31, 2016 will continue to amortize under an 18-month basis until they are fully amortized.

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

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 and equipment at December 31, 2017 and 2016. Management has deemed that certain software development costs were impaired at December 31, 2017, and such impairment is more fully described in Note 4 below.

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 December 31, 2017 and 2016, the carrying value of its investments totaled $5,000. For the years ended December 31, 2017 and 2016, the Company recorded a loss on investment of $0 and $14,086, respectively.

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 December 31, 2017 and December 31, 2016, 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).

For the years ended December 31, 2017 and 2016, the Company did not identify any 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 costs and hosting fees. 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.

Marketing and Public Relations

The Company follows the policy of charging the costs of marketing, and public relations to expense as incurred. Such costs were $518,099 and $472,351 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

The Company accounts for income taxes pursuant to the asset and liability method under ASC 740, *Income Taxes*, which requires deferred income tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company records interest and penalties related to income taxes as a component of income taxes. The Company did not recognize any interest and penalty expense for the years ended December 31, 2017 and 2016.

Prior to June 2014, Tapinator LLC had elected to be treated under the Internal Revenue Code as a Limited Liability Company. As such, the Company's taxable income or loss was allocated to its members in accordance with their respective percentage ownership. In accordance with the share exchange agreement, the Company is treated under the Internal Revenue Code as a C-Corporation.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As of December 31, 2017 and 2016, the Company had not recorded any unrecognized tax benefits.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes(Continued)

On December 22, 2017, the Tax Cuts and Job Act (TCJA) was signed into law by the President of the United States. TCJA is a tax reform act that among other things, reduced corporate tax rates to 21 percent effective January 1, 2018. FASB ASC 740, Income Taxes, requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates in the year of enactment, which is the year in which the change was signed into law. Accordingly, the Company adjusted its deferred tax assets and liabilities at December 31, 2017, using the new corporate tax rate of 21 percent. See Note 12.

Stock-Based Compensation

The Company measures the fair value of stock-based compensation issued to employees and 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

The Company computes per share amounts in accordance with FASB ASC Topic 260 "Earnings per Share" ("EPS"), which requires presentation of basic and diluted EPS. Basic EPS is computed by dividing the income (loss) available to Common Stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is based on the weighted-average number of shares of Common Stock and Common Stock equivalents outstanding during the periods; however, potential common shares are excluded for period in which the Company incurs losses, as their effect is anti-dilutive.

For the year ended December 31, 2017, potentially dilutive securities excluded from the computation of basic and diluted net (loss) per share include 10,800,000 potentially convertible common shares related to the Company's Senior Secured Convertible Debenture, 1,680,000 potentially convertible common shares related to the Company's Series A Preferred Stock, 6,000,000 potentially convertible shares related to the Company's Series A-1 Preferred Stock, 5,050,000 Common Stock Options and 3,500,000 Common Stock Warrants.

For the year ended December 31, 2016, potentially dilutive securities excluded from the computation of basic and diluted net (loss) per share include 9,576,000 potentially convertible shares related to the Company's Senior Secured Convertible Debenture, 1,680,000 potentially convertible common shares related to the Company's Serial A Preferred stock, 550,000 Common Stock Options and 10,926,829 Common Stock Warrants.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). This ASU eliminates Step 2 from the goodwill impairment test. Under the new guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, this ASU eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. While we are currently evaluating the impact of the adoption of this ASU, we do not believe that the adoption of this guidance will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting. This update is effective for annual periods, and interim periods within those years, beginning after December 15, 2018. This new guidance must be adopted using a modified retrospective approach whereby lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact of adopting this update on our Consolidated Financial Statements, which will consist primarily of a balance sheet gross up of our operating leases, mostly for office space.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration, which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB recently issued several amendments to the standard, including clarifications on disclosure of prior-period performance obligations and remaining performance obligations. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The new standard is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The Company will adopt the new standard effective January 1, 2018. We are currently evaluating the impact of adopting this standard on our Consolidated Financial Statements.

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 December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Leasehold improvements	$ 2,435	$ 2,435
Furniture and fixtures	10,337	8,238
Computer equipment	24,285	22,406
Property and equipment cost	37,057	33,079
Less: accumulated depreciation	(22,645)	(12,650)
Property and equipment, net	$ 14,412	$ 20,429

During the years ended December 31, 2017 and December 31, 2016, depreciation expense was $9,995 and $7,871, respectively.

NOTE 4—SOFTWARE DEVELOPMENT COSTS

Capitalized software development costs at December 31, 2017 and December 31, 2016 were as follows:

	December 31, 2017	December 31, 2016
Software development cost	$ 3,259,719	$ 2,441,625
Less: accumulated amortization	(1,976,861)	(1,267,248)
Less: Impairment of capitalized software	(256,310)	-
Capitalized software development cost, net	$ 1,026,548	$ 1,174,377

During the year ended December 31, 2017 and December 31, 2016, amortization expense related to capitalized software was $709,615 and $767,187, respectively. At December 31, 2017, management has deemed that the net software development cost carrying amount related to certain of our released and unreleased mobile games is likely not recoverable, thus we have taken an impairment charge of $256,310 as of December 31, 2017.

NOTE 5 — RELATED PARTY TRANSACTIONS

The Company utilizes the services of an affiliated entity of a 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 year ended December 31, 2017 and December 31, 2016 were $ 668,162 and $835,356, respectively. As of December 31, 2017, and December 31, 2016, the Company had balances due to related parties related primarily to the software development services of $100,115 and $89,697, respectively.

NOTE 6 — SENIOR SECURED CONVERTIBLE DEBENTURE

In July 2016, the Company and the Holder entered into an agreement (the "2016 Exchange Agreement") to amend and refinance the terms of the $2,240,000 8% Original Issue Discount Senior Secured Convertible Debenture (the "2015 Debenture") originally issued to the Holder in June, 2015. In connection with the 2015 Debenture, the Company and Holder entered into that certain Securities Purchase Agreement, dated June 19, 2015 (the "Purchase Agreement") pursuant to which the Company issued to the Holder the following (i) the 2015 Debenture which was convertible into shares of the Company's common stock at a price per share of $.205, (ii) Series A Common Stock purchase warrants (the "Series A Warrants") to purchase up to 10,926,829 shares of common stock with an exercise price of $.30 and (iii) Series B Common Stock purchase warrants (the "Series B Warrants") to purchase up to 10,926,829 shares of common stock with an exercise price of $.30 (collectively, the terms of which are referred to herein as the "2015 Financing"). Immediately prior to the 2016 Exchange Agreement, the Company owed remaining cash payments to the Holder of $560,000 on October 1, 2016 and $1,120,000 on January 1, 2017 under the 2015 Debenture. Pursuant to the 2016 Exchange Agreement, the following material terms of the Original Financing were amended, altered and/or ratified (collectively, the terms of which are referred to herein as the "2016 Financing"): (i) the 2015 Debenture was exchanged in its entirety for the issuance of a new 8% Original Issue Discount Senior Secured Convertible Debenture with an original principal amount of $2,394,000 and an increased conversion price of $0.25 (the "2016 Debenture"), (ii) the issuance of 420 shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock") as further described by the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock which may be converted into 1,680,000 shares of Company's common stock, (iii) the extension of the maturity date of the Series A Warrants from June 22, 2020 until July 28, 2021, (iv) the cancellation of the Series B Warrants in their entirety, (v) the ratification of the Security Agreement executed by the Company with respect to all of its assets (as required by the initial Purchase Agreement and 2015 Debenture) as continued collateral for the 2016 Debenture as well as the ratification of the Subsidiary Guarantee and Pledge and Security Agreement as such agreements are referenced in the Purchase Agreement and Exchange Agreement, and (vi) the creation of a new right for the Holder, subject to the written consent of the Company, for a $2,100,000 cash investment in the Company with identical terms to the 2016 Financing.

In June 2017, the Company and the holder of its Senior Secured Convertible Debenture (the "Holder") entered into an amendment agreement (the "2017 Amended Agreement") to amend and refinance the terms of the $2,394,000 8% Original Issue Discount Senior Secured Convertible Debenture (the "2016 Debenture") originally issued to the Holder in July, 2016. Pursuant to the 2017 Amended Agreement, the Company prepaid the Holder a portion of the outstanding principal on the 2016 Debenture in the amount of $234,000 and all of the accrued interest on the 2016 Debenture through June 30, 2017 in the amount of $191,520. Following such payments, the remaining principal amount of the Holder's amended 2016 Debenture was $2,160,000 (the "Amended 2016 Debenture"). In addition, the Company and the Holder agreed to reduce the Conversion Price from $0.25 in the 2016 Debenture to $0.20 in the Amended 2016 Debenture. The Amended 2016 Debenture is due on July 31, 2018, and the Company shall pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this debenture at the rate of 8% per annum, payable on each December 31, March 31, July 31, and October 31, thereafter, beginning on December 31, 2017. As of December 31, 2017, the accrued interest for the note is $86,400.

In June 2017, the Company and Holder also entered into an exchange agreement (the "2017 Exchange Agreement") to exchange the existing 10,926,829 shares of Series A Common Stock purchase warrants (the "Series A Warrants") for 1,500 shares of Series A-1 Convertible Preferred Stock (the "Series A-1 Preferred Stock") as further described by the Certificate of Designation of Preferences, Rights and Limitations of Series A-1 Convertible Preferred Stock, and which may be converted into 6,000,000 shares of the Company's common stock.

The Amended 2016 Debenture and the Series A Preferred Stock contain anti-dilution protection such that the conversion and exercise price, respectively, will be adjusted 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 Series A-1 Preferred Stock does not provide for anti-dilution protection.

NOTE 6 — SENIOR SECURED CONVERTIBLE DEBENTURE (CONTINUED)

During the years ended December 31, 2017 and 2016, amortization of the debt discount related to the Senior Secured Convertible Debentures was $1,404,254 and $1,105,869, respectively. During the years ended December 31, 2017 and 2016, amortization of the original issue discount related to the Senior Secured Convertible Debentures was $341,577 and $270,517, respectively. Pursuant to the 2017 Amended Agreement and the 2016 Exchange Agreement, the Company recorded debt extinguishment losses of $830,001 and $770,526 for the years ended December 31, 2017 and 2016, respectively.

Senior secured convertible debenture payable as of December 31, 2017, and December 31, 2016 were comprised of the following:

	December 31, 2017	December 31, 2016
Principal balance outstanding	$ 2,160,000	$ 2,394,000
Less:		
Debt discount – beneficial conversion feature	(657,564)	(1,221,818)
Debt discount – original issue discount	(179,304)	(519,273)
Debt discount – financing costs	(6,250)	(18,182)
Principal balance outstanding, net	1,316,882	634,727
Less current portion	1,316,882	158,682
Long term portion	-	476,045

NOTE 7 — COMMITMENTS

In August 2016, the Company entered into a lease for office space which expires in November 2021. Future minimum lease payments under this lease are as follows:

Year ended December 31,	
2018	$ 57,737
2019	59,469
2020	61,253
2021	63,090
Total	241,549

For the years ended December 31, 2017 and 2016, rent expense totaled $56,398 and $56,160 and respectively.

NOTE 8 — OPTIONS

In December 2015, the Company approved the 2015 Equity Incentive Plan (the "Plan"). The Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, performance stock awards and other stock-based awards (collectively, "Stock Awards"). Under the Plan, the Company may grant Stock Awards to its employees, directors and consultants of up to 6,000,000 shares of common stock.

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 commencing on March 31, 2016, contingent upon the grantee's continual service as a member of the Board of Directors as of each vesting installment date. Total stock-based compensation related to this option grant was $49,489 and $45,365 during the years ended December 31, 2017 and 2016 respectively.

In May 2016 and pursuant to the 2015 Equity Incentive Plan, the Company granted an executive officer an option to purchase 250,000 shares of the Company's common stock at an exercise price equal to $0.1925 per share. Such option shall vest in eight quarterly installments of 31,250 shares at the end of each quarterly anniversary commencing on August 31, 2016, contingent upon the grantee's continual employment by the Company as of each vesting installment date. Total stock-based compensation related to this option grant was $24,063 and $14,036 during the years ended December 31, 2017 and 2016 respectively.

On May 11, 2017 and pursuant to the 2015 Equity Incentive Plan, the Company granted executive officers, directors and employees options to purchase 4,500,000 shares of the Company's common stock at an exercise price equal to $0.11 per share. Such options shall vest in twelve quarterly installments of 375,000 shares at the end of each quarterly anniversary commencing on June 30, 2017, contingent upon the grantee's continual employment or service with the Company as of each vesting installment date. Total stock-based compensation related to these option grants was $100,000 during the year ended December 31, 2017.

The fair value of the stock options issued in 2017 was determined using the Black Scholes option pricing model with the following assumptions: dividend yield: 0%; volatility: 304.61%; risk free rate: 2.39%; term 10 years.

The fair value of the stock options issued in 2016 was determined using the Black Scholes option pricing model with the following assumptions: dividend yield: 0%; volatility: 232.41%-333.7%; risk free rate: 0.87%-1.78%; term 10 years.

	Number of Options	Weighted average exercise price	Weighted average life (years)	Intrinsic value of Options
Outstanding, January 1, 2016	-	-	-	
Granted	550,000	$ 0.27	10.00	
Exercised	-	-	-	
Expired	-	-	-	
Outstanding, December 31, 2016	550,000	$ 0.27	9.23	
Granted	4,500,000	0.11	10.00	
Exercised	-	-	-	
Expired	-	-	-	
Outstanding, December 31, 2017	5,050,000	$ 0.13	9.24	$ 247,500
Exercisable, December 31, 2017	1,612,500	$ 0.16	9.01	$ 61,875

NOTE 9 — COMMON STOCK WARRANTS

During the year ended December 31, 2017, the Company granted warrants in connection with the Stock Purchase Agreements described in Note 10. The warrant terms are 3 years expiring in February, 2020 and June, 2020. During the year ended December 31, 2017, the Company cancelled 10,926,829 warrants in connection with the 2017 Exchange Agreement described in Note 5 above.

	Number of Common Stock Warrants	Weighted average exercise price	Weighted average life (years)	Intrinsic value of Warrants
Outstanding, December 31, 2015	10,926,829	$ 0.30	4.58	
Granted	-	-	-	
Exercised	-	-	-	
Canceled	-	-	-	
Outstanding, Decmeber 31, 2016	10,926,829	$ 0.30	4.47	
Granted	3,500,000	$ 0.24	3.00	
Exercised	-	-	-	
Canceled	(10,926,829)	$ 0.30	2.47	
Outstanding, December 31, 2017	3,500,000	$ 0.24	2.35	$ -
Exercisable, December 31, 2017	3,500,000	$ 0.24	2.35	$ -

NOTE 10 — STOCKHOLDERS' EQUITY

At December 31, 2017, 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, par value $0.001 per share.

The Company issued 300,000 shares of restricted Common Stock, valued at $57,000, pursuant to an investor relations consulting agreement dated August 6, 2015. On March 14, 2016, the agreement was cancelled and 150,000 shares of the Company's common stock valued at $28,500 were returned to the Company at which time the shares were cancelled.

In July 2016, the Company and the holder of its Senior Secured Convertible Debenture entered into an agreement to amend and refinance the terms of the $2.4 million 8% Original Issue Discount Senior Secured Convertible Debenture originally issued in June, 2015.

Pursuant to the Exchange Agreement, the following material terms of the Original Financing were amended, altered and/or ratified: (i) the Original Debenture was exchanged in its entirety for the issuance of a new 8% Original Issue Discount Senior Secured Convertible Debenture with an original principal amount of $2,394,000 and an increased conversion price of $0.25, (ii) the issuance of 420 shares of Series A Convertible Stock as further described by the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock which may be exercised for up to 1,680,000 shares of Company's common stock, (iii) the extension of the maturity date of the Series A Warrant from June 22, 2020 until July 28, 2021, (iv) the cancellation of the Series B Warrants in their entirety, (v) the ratification of the Security Agreement executed by the Company with respect to all of its assets (as required by the initial Purchase Agreement and Original Debenture) as continued collateral for the New Debenture as well as the ratification of the Subsidiary Guarantee and Pledge and Security Agreement as such agreements are referenced in the Purchase Agreement and Exchange Agreement, and (vi) the creation of a new right for the Holder, subject to the written consent of the Company, for a $2,100,000 cash investment in the Company with identical terms to the New Financing.

NOTE 10 — STOCKHOLDERS' EQUITY (CONTINUED)

In June, 2017, the Company entered into a Stock Purchase Agreement with an individual investor for the purchase of 2,000,000 shares of the Company's common stock for an aggregate purchase price of $200,000. In connection with the financing, the Company also issued to the investor a warrant, which has a term of three years and shall enable the investor to purchase up to an additional 2,500,000 shares of the Company's common stock at an exercise price of $.20 per share.

In February, 2017, the Company entered into a Stock Purchase Agreement with an individual investor for the purchase of 500,000 shares of the Company's common stock for an aggregate purchase price of $150,000, or $0.30 per share. In connection with the financing, the Company also issued to the investor two warrants. Each warrant has a term of three years and each warrant shall enable the investor to purchase up to an additional 500,000 shares of the Company's common stock at an exercise price of $.30 per share and $.36 per share, respectively.

NOTE 11 – NON-CONTROLLING INTEREST

On December 29, 2017, the Company, jointly with an individual investor, organized Revolution Blockchain, LLC ("RB"), a Colorado limited liability company for the purpose of developing, marketing and monetizing games and applications that, other than for payment purposes, write to or read from a blockchain, with ownership interests of 96% and 4% for the Company and the individual investor, respectively.

In connection with entering into the RB joint venture with the individual investor, RB issued to the individual investor a four percent (4%) membership interest as a Class A Member of RB for an aggregate purchase price of $100,000. The Class A Members have the right to convert their entire initial capital investment into shares of the Company's common stock at a conversion price of $0.25 per share. RB shall distribute to the Class A Members no later than (i) forty-five days from the end of each fiscal quarter and (ii) ninety days from the end of each fiscal year, on a pro rata basis, 50% of all net revenue earned by RB in the previous fiscal period, as applicable, until the Class A Members have received two times the Class A Member's initial capital commitment. At such time the distribution percentage shall be decreased from 50% to 20% of net revenue. For purposes of illustration, for each $100,000 Initial Capital Commitment, a Class A Member shall initially receive a 10% distribution right of Net Revenue until such time as such Class A Member has received $200,000. At such time, such Class A Member's distribution right shall decrease from 10% to 4% of the Net Revenue.

NOTE 12— INCOME TAXES

A reconciliation of the U.S. Federal Statutory income tax rate to the Company's effective income tax rate is as follows:

	2017	2016
Federal statutory income tax rate	23.9%	34.0%
State taxes, net of Federal benefit	5.5%	5.5%
Valuation allowance	(29.4%)	(39.5%)
Effective income tax rate	- %	- %

Net deferred tax assets as of December 31, 2017 and 2016 consist of the following:

	2017	2016
Net operating loss carryforwards	$ 1,900,740	$ 1,683,782
Valuation allowance	(1,900,740)	(1,683,782)
Effective income tax rate	$ -	$ -

NOTE 12— INCOME TAXES (CONTINUED)

As of December 31, 2017, the Company has federal net operating loss carryforwards ("NOL's") of approximately $7,950,000 that will be available to reduce future taxable income, if any. These NOL's begin to expire in 2034. Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, provide for annual limitations on the utilization of net operating loss and credit carryforwards if the Company were to undergo an ownership change, as defined in Section 382 of the Code. In general, an ownership change occurs whenever the percentage of the shares of a corporation owned, directly or indirectly, by 5-percent shareholders, as defined in Section 382 of the Code, increases by more than 50 percentage points over the lowest percentage of the shares of such corporation owned, directly or indirectly, by such 5-percent shareholders at any time over the preceding three years. In the event such ownership change occurs, the annual limitation may result in the expiration of the net operating losses prior to full utilization.

The Company performs an analysis each year to determine whether the expected future income will more likely than not be sufficient to realize the deferred tax assets. No tax benefit has been reported in the financial statements, since the potential tax benefit is offset by a valuation allowance of the same amount.

During the year ended December 31, 2017, the Company decreased its valuation allowance by $216,957 due to the continued likelihood that realization of any future benefit from deductible temporary differences and net operating loss carryforwards cannot be sufficiently assumed at December 31, 2017.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act establishes new tax laws that affects 2018 and future years, including a reduction in the U.S. federal corporate income tax rate to 21%, effective January 1, 2018. For certain deferred tax assets and deferred tax liabilities, we have recorded a provisional decrease of $1,240,650 with a corresponding adjustment to valuation allowance of $1,240,650 as of December 2017.

As of December 31, 2017, open tax years include the period from July 1, 2013 (inception) through December 31, 2017.

The Company applies the standard relating to accounting (ASC 740-10) for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is required to recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. There were no significant unrecognized tax benefits recorded as of December 31, 2017 and 2016.

NOTE 13 —SUBSEQUENT EVENTS

On January 18, 2018, the Company and one of its non-affiliated shareholders agreed to amend the terms of two Warrants, each providing for the purchase of 500,000 common shares, held by the shareholder. The per share exercise price on the two Warrants was reduced from $.36 to $.12 and from $.30 to $.12, respectively. On the same day, said shareholder elected to exercise both Warrants for an aggregate cash payment to the Company of $120,000. The 1,000,000 shares of common stock issued under the Warrants are "restricted securities" as such term is defined in the Securities Act.

On January 22, 2018, the holder of all of the Company's Series A-1 Stock elected to convert all of the 1,500 shares of such stock into 6,000,000 shares of the Company's common stock. The 6,000,000 shares of common stock converted under the Series A-1 Stock will be issued without restrictive legend pursuant to Section 4(a)(1) of the Securities Act.

On January 23, 2018 and via the written consent of a majority of its stockholders, the Company increased the number of its authorized common stock from 150,000,000 to 250,000,000 and increased the number of shares of common stock underlying its 2015 Equity Incentive Plan from 6,000,000 to 18,000,000.

On January 30, 2018, we consummated the first closing of the Company's private placement announced on September 7, 2017 (the "Offering"). Specifically, the Company entered into Subscription Agreements (the "Subscription Agreement") with various investors (collectively, the "Investors") for the purchase of 11,791,668 shares of the Company's Common Stock for an aggregate purchase price of $1,415,000, or $0.12 per share. The Company received net proceeds of $1,162,805 from the first closing after payment of the placement agent's 10% cash commission as well as other expenses

NOTE 13 —SUBSEQUENT EVENTS (CONTINUED)

relating to the Offering and other expenses of the Company. In connection with the first closing and pursuant to the terms of the Offering, the Company issued to the Investors Common Stock Purchase Warrants (the "Warrants") to purchase up to 11,791,666 shares of the Company's Common Stock at a per share exercise price of $0.144. The Warrants have five-year terms and do not allow for cashless exercise unless the Company is unable to obtain an effective registration statement with the Securities and Exchange Commission regarding the shares underlying the Warrants, subject to certain conditions.

On February 7, 2018, we consummated the second closing of the Offering. Specifically, the Company entered into Subscription Agreements with Investors for the purchase of 8,562,499 shares of the Company's Common Stock for an aggregate purchase price of $1,027,500, or $0.12 per share. The Company received net proceeds of $920,680 from the second closing after payment of the placement agent's 10% cash commission as well as other expenses relating to the Offering. In connection with the second closing and pursuant to the terms of the Offering, the Company issued to the Investors Warrants to purchase up to 8,562,499 shares of the Company's Common Stock at a per share exercise price of $0.144.

On February 15, 2018, we consummated the third and final closing of the Offering. Specifically, the Company entered into Subscription Agreements with Investors for the purchase of 4,645,835 shares of the Company's Common Stock for an aggregate purchase price of $557,500, or $0.12 per share. The Company received net proceeds of $498,303 from the third closing after payment of the placement agent's 10% cash commission as well as other expenses relating to the Offering. In connection with the third closing and pursuant to the terms of the Offering, the Company issued to the Investors Warrants to purchase up to 4,645,834 shares of the Company's Common Stock at a per share exercise price of $0.144.

Also on February 15, 2018 and in connection with the three closings and pursuant to the terms of the Offering, the Company issued to the placement agent Common Stock Purchase Warrants (the "Placement Agent Warrants") to purchase up to 5,000,000 shares of the Company's Common Stock at an exercise price of $0.15. The Placement Agent Warrants will have a five-year term and will have cashless exercise provisions at all times.

The Offering is now concluded. In connection with the three closings of the Offering, the Company raised gross proceeds of $3,000,000, received net proceeds of $2,581,788, issued 25,000,002 shares of common stock to the Investors, and issued Warrants to the Investors to purchase up to 25,000,000 shares of the Company's Common Stock at a per share exercise price of $0.144. The shares of common stock sold under the Subscription Agreement and the shares of common stock underlying the Warrants and the Placement Agent Warrant were issued in reliance upon an exemption from registration provided by Rule 506(c) of Regulation D under the Securities Act. All such shares issued relating to the Offering will be "restricted securities" in accordance with Rule 144(a)(3) of the Securities Act and all of the Investors are "accredited investor" as defined by Rule 501(a) of Regulation D under the Securities Act.

On February 21, 2018, the Board of Directors of the Company approved grants of Restricted Stock Units (as defined by the Company's 2015 Equity Incentive Plan) to the following officers, directors and employees of the Company as follows (the "RSU Grants"):

Name	No. of RSU's	Title
Robert Crates	250,000	Director
Boris Dimembort	250,000	Employee
Teymour Farman-Farmaian	250,000	Director
Andrew Merkatz	5,000,000	Director, President, CFO
Ilya Nikolayev	5,000,000	Director, CEO

Subject to each recipient continuing as an officer, director, or employee (as appropriate) of the Company, each of the RSU Grants shall vest as follows: beginning on the eighteenth month following the date of the grant, the RSU Grants

NOTE 13 —SUBSEQUENT EVENTS (CONTINUED)

shall vest ratably over the following eighteen months for a total vesting period of thirty-six months. The RSU Grants shall include a provision for acceleration upon a Corporate Transaction (as defined in the 2015 Equity Incentive Plan).

The RSU Grants to the officers and directors of the Company were approved by each of the non- employee members of the Board of Directors of the Company.

On February 23, 2018, the Company entered into a Series B Exchange Agreement (the “Series B Exchange Agreement”) with HSPL Holdings, LLC (“HSPL”) to amend the terms of the 2017 Amended Agreement and 2017 Exchange Agreement to which the Company and HSPL are parties (collectively, the “2017 Exchange Agreements”). On February 23, 2018, the Company paid to HSPL $1,200,000 in cash for a net reduction of the principal amount of the 2016 Debenture of $1,142,857 after giving effect to a 5% prepayment penalty which resulted in a remaining principal balance of $1,017,143 plus all accrued but unpaid interest under the 2016 Debenture (the “Remaining 2016 Debenture Balance”). Pursuant to the Series B Exchange Agreement, the Remaining 2016 Debenture Balance and the Series A Preferred Stock were exchanged in their entirety (and thus cancelled) for issuance of 1,854 shares of Series B Convertible Stock (the “Series B Preferred Stock”) as further described by the Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock which may be initially exercised for up to 15,450,000 shares of Company’s common stock, subject to adjustment (the “Certification of Designations”). As a result of the Series B Exchange Agreement, the Company eliminated all of its outstanding debt.

Each share of the Series B Preferred Stock has a conversion price of $0.12 and a stated value of $1,000. Subject to certain exceptions, in the event the Company issues shares of its common stock at a price below $0.082, the conversion price of the Series B Preferred Stock will be reduced to the price of such issuance. HSPL and any subsequent holders of the Series B Preferred Stock are prohibited from converting the Series B Preferred Stock into more than 9.99% of the Company’s then outstanding number of shares of common stock after giving effect to such conversion.

The shares of Series B Preferred Stock will be issued in reliance upon an exemption from registration provided by Section 4(a)(2) of the Securities Act. The shares of common stock underlying the Series B Preferred Stock are subject to being issued without restrictive legend pursuant to Section 3(a)(9) of the Securities Act, subject to various conditions and limitations. HSPL is an “accredited investor” as defined under the Securities Act.

On February 20, 2018 and as amended on March 1, 2018, the Company entered into an investment banking advisory agreement with Westpark Capital, Inc. with an initial term of six months. In connection with this agreement, Westpark Capital purchased a three-year common stock warrant to purchase up 1,400,000 share of the Company’s common stock at an exercise price of $.01 per share from the Company for a purchase price of $100.

On March 26, 2018, the Company purchased the 4% interest in its Revolution Blockchain, LLC majority-owned subsidiary that it did not otherwise own for a purchase price equal to the following: (i) $100,000 in cash and (ii) the issuance of a three-year common stock warrant to purchase up to 300,000 shares of the Company’s common stock at an exercise price of $0.25. Following the transaction, Revolution Blockchain LLC became a wholly-owned subsidiary of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the accompanying notes included elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, particularly in "Special Note Regarding Forward-Looking Statements." The forward-looking statements included in this Annual Report are made only as of the date hereof.

Overview

This overview provides a high-level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important to understand our financial results for the years ended December 31, 2017 and 2016. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this report, including our audited consolidated financial statements and accompanying notes.

Tapinator develops and publishes mobile games and applications on the iOS, Google Play, Amazon and Ethereum platforms. Tapinator's portfolio includes over 300 active mobile gaming titles that, collectively, have achieved over 450 million player downloads, including notable games such as ROCKY™, Video Poker Classic, Solitaire Dash and Dice Mage. Tapinator generates revenues through the sale of branded advertising and via consumer transactions, including in-app purchases.

The Company currently develops two types of mobile games. Tapinator's Rapid-Launch Games are developed and published in significant quantity. These are titles that are built economically and rapidly based on a series of internally developed, expandable and re-useable game engines. These games are currently published under the Tapinator, Tap2Play, and TapSim Game Studio brands. The Company's Full-Featured Games are unique products with high production values and high revenue potential, developed and published selectively based on both original and licensed IP. These titles require significant development investment and have, in the opinion of management, the potential to become well-known and long-lasting, successful mobile game franchises. These games are currently published exclusively under the Tapinator brand.

Rapid-Launch Games: We define a Rapid-Launch Game as a product that is built on top of one of our internally developed Rapid-Launch Game engines. To date, we have developed engines (and launched more than 300 Rapid-Launch titles) within the following game genres: parking, driving, stunts, shooters, fighting, animal sims, career sims and racing. For example, we have created a proprietary parking simulation engine and have used this to launch car, truck, limousine, ambulance, and other types of vehicle parking simulation games. These games are monetized primarily through branded advertisements which are typically sold via third-party advertising networks and trafficked via third-party ad mediation software installed within the games. These games are marketed primarily through cross-promotion within our existing Rapid-Launch Game network and via various app store optimization ("ASO") strategies.

Full-Featured Games: We define a Full-Featured Game as a product that is designed and engineered on a completely custom basis (i.e. not based on an existing game engine), and one that contains unique components of gameplay, systems, themes, IP or some combination thereof. Full-Featured Games require significant development investment and have, in the opinion of management, the potential to become well-known and long-lasting successful mobile game franchises. To date, the Company has developed and/or published approximately 15 Full-Featured Games including notable titles such as: ROCKY™, Video Poker Classic, Solitaire Dash and Dice Mage. Eleven of these games have been editorially featured as "Best New Games" or "New Games We Love" by Apple on the iOS platform, and a subset of these games have also been editorially featured by the Google Play and Amazon App Stores. These games are marketed primarily through app store feature placement and through paid marketing channels in cases where the Company calculates that a game's average player Lifetime Value ("LTV") exceeds that of the game's average player acquisition cost. Full-Featured Games are monetized primarily via consumer app store transactions.

Blockchain Games: In December 2017, the Company formed a new subsidiary, Revolution Blockchain, LLC, to develop, publish and invest in decentralized games and applications ("DAPPS") that leverage the Ethereum blockchain platform. The Company's first two products from this subsidiary are currently under development and are both expected to be released into live beta by the second quarter of 2018. These products include *BitPainting*, a digital platform for collecting iconic art on the blockchain, and *Dark Winds*, an online multiplayer collectable game with a pirate adventure theme, where Ethereum powers the ability to collect and battle with limited edition cards. Each of these products will leverage blockchain technology for both payment (i.e. the purchase & sale of virtual assets) and the storage of these assets via non-fungible tokens ("NFTs") that live on the blockchain.

Strategy

In early 2017, we announced a strategic shift to focus more of our investment and management resources into our Full-Featured Games business. We believe the potential size, quality and sustainability of revenues and earnings from the Full-Featured Games business is significantly greater than that of our existing Rapid-Launch Games business. Our goal in terms of our Full-Featured Games is to create franchise-type titles that have product lifespans of at least five to ten years. In order to accomplish this, we believe that we need to achieve player LTVs that exceeds player acquisition cost, at scale. To date, the Company has been able to achieve this, at certain player volumes, for two products: "Video Poker Classic" and "Solitaire Dash."

In late 2017, we recognized the development of a new and potentially important market developing around blockchain based games and applications. We believe blockchain technology could have a major long term impact on Tapinator's core business of mobile gaming. One early example a highly successful DAPP within the gaming space is CryptoKitties, a crypto-collectible game that pioneered the use of the non-fungible ERC-721 token. According to the VentureBeat, the game has recorded more than $40 million in consumer transactions in the first five months of the game's life, beginning with its November, 2017 release. Most recently, CrytpoKitties announced that they raised $12.0 million in venture funding from prominent venture capitalists including Andreessen Horowitz and Union Square Ventures.

While there can be no guaranty that our DAPP projects will achieve these or any levels of success, based on our management team's experience in building applications and games on various digital platforms including Facebook, iOS, Google Play and Amazon, we believe we are highly qualified to develop games and applications on leading blockchain platforms such as the Ethereum network. Based on our experience, we also understand the importance of entering these new platform ecosystems early and aggressively in order to establish market leadership. Lastly, we believe there may be opportunities to enhance and extend certain of our mobile gaming assets utilizing blockchain technology.

Current Outlook

As demonstrated by our strategic shift, we believe and are confident in our ability to continue to drive strong year-over-year and sequential growth in key operating and financial metrics within our Full-Featured Games business. This growth is expected to be derived from a combination of existing franchises such as Video Poker Classic and Solitaire Dash, and titles that we plan to this year such as Fusion Heroes, Divide & Conquer and Dice Mage Online.

In our Rapid-Launch Games business, while we experienced significant declines in 2017, we believe this portfolio has since stabilized, and we are now forecasting the resumption of modest growth in 2018. We are pleased by the performance of certain recent Rapid-Launch Game launches such as Sea Dragon Simulator and Virtual Mom: Happy Family 3D.

In terms of our recent entry into the Blockchain Games market, given the current small size and nascent state of this market, we do not currently expect our initial games within this area to have a material impact on 2018 revenues.

Key Metrics

We regularly review a number of metrics, including the following key operating and financial metrics, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions.

Key Operating Metrics

We manage our business by tracking various non-financial operating metrics that give us insight into user behavior in our games. The three metrics that we use most frequently are Daily Active Users ("DAUs"), Monthly Active Users ("MAUs") and Average Bookings Per User ("ABPU").

Daily Active Users -- DAUs. We define DAUs as the number of individuals who played a particular smartphone game on a particular day. An individual who plays two different games on the same day is counted as two active users for that day when we aggregate DAU across games. In addition, an individual who plays the same game on two different devices during the same day (e.g., an iPhone and an iPad) is also counted as two active users for each such day when we average or aggregate DAU over time. Average DAU for a particular period is the average of the DAUs for each day during that period. We use DAU as a measure of player engagement with the titles that our players have downloaded.

Monthly Active Users – MAUs. We define MAUs as the number of individuals who played a particular smartphone game in the month for which we are calculating the metric. An individual who plays two different games in the same month is counted as two active users for that month when we aggregate MAU across games. In addition, an individual who plays the same game on two different devices during the same month (e.g., an iPhone and an iPad) is also counted as two active users for each such month when we average or aggregate MAU over time. Average MAU for a particular period is the average of the MAUs for each month during that period. We use the ratio between DAU and MAU as a measure of player retention.

Average Bookings Per User --ABPUs We define ABPU as our total bookings in a given period, divided by the number of days in that period, divided by, the average DAUs during the period. We believe that ABPU provides useful information to investors and others in understanding and evaluating our results in the same manner as our management and board of directors. We use ABPU as a measure of overall monetization across all of our players through the sale of virtual goods and advertising.

Key Financial Metrics

Bookings. Bookings is a non-GAAP financial measure that is equal to revenue recognized during the period plus the change in deferred revenue during the period. We record the sale of virtual goods as deferred revenue and then recognize that revenue over the estimated average life of the purchased virtual goods or as the virtual goods are consumed. Bookings, as opposed to revenue, is the fundamental top-line metric we use to manage our business, as we believe it is a useful indicator of the sales activity in a given period. Over the long term, the factors impacting our bookings and revenue are the same. However, in the short term, there are factors that may cause revenue to exceed or be less than bookings in any period.

We use bookings to evaluate the results of our operations, generate future operating plans and assess the performance of our company. While we believe that this non-GAAP financial measure is useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for revenue recognized in accordance with U.S. GAAP. In addition, other companies, including companies in our industry, may calculate bookings differently or not at all, which reduces its usefulness as a comparative measure.

Trends in Key Operating Metrics

	Year Ended December 31,	
	2017	2016
All Games	(In thousands)	
Average DAUs	728	959
Average MAUs	12,618	16,531
ABPU	0.01	0.01

The decrease in average DAU and MAU for the year ended December 31, 2017 as compared to the year ended December 31, 2016 was primarily related to a significant, but temporary, strengthening of our Rapid-Launch Games business that we experienced in the second and third quarters of 2016, but that has not since been sustained. This strengthening occurred across our entire Rapid-Launch Games portfolio.

The ABPU remained unchanged for the year ended December 31, 2017 as compared to the year ended December 31, 2016.

	Year Ended December 31,	
	2017	2016
Full-Featured Games	(In thousands)	
Average DAUs	30	17
Average MAUs	324	194
ABPU	0.12	0.07

The increase in average DAU and MAU for the year ended December 31, 2017 as compared to the year ended December 31, 2016 was primarily related to the successful Full-Featured Game launches of Dice Mage 2 and Big Sport Fishing 2017 in 2017.

The increase in our Full-Featured Games' ABPU for the year ended December 31, 2017 as compared to the year ended December 31, 2016 was primarily related to strong player monetization performance achieved within our Dice Mage 2, Video Poker Classic and Solitaire Dash games.

	Year Ended December 31,	
	2017	2016
Rapid-Launch Games	(In thousands)	
Average DAUs	699	942
Average MAUs	12,293	16,337
ABPU	0.01	0.01

The decrease in average DAU and MAU for the year ended December 31, 2017 as compared to the year ended December 31, 2016 was primarily related to a significant, but temporary, strengthening of our Rapid-Launch Games business that we experienced in the second and third quarters of 2016, but that has not since been sustained. This strengthening occurred across our entire Rapid-Launch Games portfolio.

The ABPU within our Rapid-Launch Games remained unchanged for the year ended December 31, 2017 as compared to the year ended December 31, 2016 driven by an increase in advertising prices ("CPM's" or "Cost Per Thousand Impressions") but offset by a reduction in player engagement (impressions per DAU) during the relative periods.

Trends in Key Non-GAAP Financial Metrics

We have provided in this release the non-GAAP financial measures of Bookings and adjusted EBITDA, as a supplement to the consolidated financial statements, which are prepared in accordance with United States generally accepted accounting principles ("GAAP"). Management uses Bookings and adjusted EBITDA internally in analyzing our financial results to assess operational performance and liquidity. The presentation of Bookings and adjusted EBITDA is not intended to be considered in isolation or as a substitute for the financial information prepared in accordance with GAAP. We believe that both management and investors benefit from referring to Bookings and adjusted EBITDA in assessing our performance and when planning, forecasting and analyzing future periods. We believe Bookings and adjusted EBITDA is useful to investors because it allows for greater transparency with respect to key financial metrics we use in making operating decisions and because our investors and analysts use them to help assess the health of our business. We have provided reconciliations between our historical Bookings and adjusted EBITDA to the most directly comparable GAAP financial measures below.

Bookings Results

Bookings for the year ended December 31, 2017 was $3.50 million, an 8% decrease compared to the year ended December 31, 2016, in which we reported bookings of $3.82 million. The decrease was caused by a 34% bookings decrease in our Rapid Launch Games business, which was partially offset by a 198% increase in our Full-Featured Games business.

	Year Ended	
	December 31, 2017	December 31, 2016
Bookings by Game Type (In thousands)		
Full-Featured	$1,280	$430
Rapid-Launch	2,219	3,387
Total	$3,499	$3,817

Our Full-Featured Games' bookings increased $850 thousand, or 197%, from $430 thousand for the year ended December 31, 2016 to $1.28 million for the year ended December 31, 2017. The increase in Full-Featured bookings is attributable primarily to growth in player engagement and monetization within Video Poker Classic and the successful global launches of Solitaire Dash, Dice Mage 2 and Big Sport Fishing 2017 between the comparable periods.

Our Rapid-Launch Games' bookings decreased $1.17 million, or 34%, from $3.39 million for the year ended December 31, 2016 to $2.22 million for the year ended December 31, 2017. The decrease in bookings is attributable primarily to a decrease in DAUs across our Rapid-Launch Games portfolio.

The following table presents a reconciliation of bookings to revenue for each of the periods presented (in thousands):

	Year Ended	
	December 31, 2017	December 31, 2016
Bookings (In thousands)	$3,499	$3,817
Change in deferred revenue	(358)	(85)
Revenue	$3,141	$3,732

Limitations of Bookings

- *Bookings does not reflect that we defer and recognize certain mobile game revenue over the estimated life of durable virtual goods; and*
- other companies, including companies in our industry, may calculate bookings differently or not at all, which reduces their usefulness as a comparative measure.

Because of these limitations, you should consider bookings along with other financial performance measures, including revenue, net income (loss) and our other financial results presented in accordance with U.S. GAAP.

Adjusted EBITDA Results

Our Adjusted EBITDA decreased $621 thousand, from $871 thousand for the year Ended December 31, 2016 to $250 thousand for the year ended December 31, 2017. The decrease in adjusted EBITDA is primarily due to increases in net loss, amortization of debt discount, impairment of capitalized software, stock-based compensation, interest expense and loss on extinguishment, all of which were partially offset by decreases in amortization of capitalized software development and depreciation and amortization of other assets in the comparable period in 2016.

	Year Ended	
	December 31, 2017	December 31, 2016
Reconciliation of Net Income (Loss) to Adjusted EBITDA: (In thousands)		
Net Income (loss)	(3,690)	(2,347)
Interest expense, net	534	452
Income taxes	9	7
Impairment of capitalized software	256	0
Amortization of capitalized software development	710	767
Depreciation and amortization of other assets	22	50
Amortization of debt discount	1,404	1,106
Loss On Extinguishment	830	771
Stock-based expense	174	65
Adjusted EBITDA	$249	$871

Limitations of Adjusted EBITDA

- *Adjusted EBITDA does not include the impact of stock-based expense, impairment of intangible assets previously acquired, acquisition-related transaction expenses, contingent consideration fair value adjustments and restructuring expense;*
- *Adjusted EBITDA does not reflect income tax expense;*
- *Adjusted EBITDA does not include other income or expense, which includes foreign exchange gains and losses and interest income or expense;*
- *Adjusted EBITDA excludes depreciation and amortization of intangible assets. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and*
- *Other companies, including companies in our industry, may calculate adjusted EBITDA differently or not at all, which will reduce their usefulness as a comparative measure.*

Because of these limitations, you should consider adjusted EBITDA along with other financial performance measures, including revenue, net income (loss), diluted net income (loss) per share, cash flow from operations, GAAP operating expense, GAAP operating margin and our other financial results presented in accordance with GAAP.

Results of Operations

The following sections discuss and analyze the changes in the significant line items in our statements of operations for the comparison periods identified.

Comparison of the Years Ended December 31, 2017 and 2016

Revenue

	Year Ended December 31,	
	2017	2016
Revenue by Type	(In thousands)	
Consumer App Store Transactions	$ 1,337	$ 738
Advertising / Other	1,804	2,994
Total	$ 3,141	$ 3,732

Our revenue decreased $591 thousand, or 16%, from $3.73 million for the year ended December 31, 2016 to $3.14 million for the year ended December 31, 2017. The decrease in revenue is attributable primarily to a decrease in advertising related bookings within our Rapid-Launch Games business, which was partially offset by an increase in consumer app store transaction related bookings within our Full-Featured Games business.

	Year Ended December 31,	
	2017	2016
Revenue by Game Type	(In thousands)	
Full-Featured	$ 920	$ 351
Rapid-Launch	2,221	3,381
Total	$ 3,141	$ 3,732

Our Full-Featured Games' revenue increased $569 thousand, or 162%, from $351 thousand for the year ended December 31, 2016 to $920 thousand for the year ended December 31, 2017. The increase in Full-Featured revenue is attributable primarily to growth in player engagement and monetization within Video Poker Classic, and the global launches of Solitaire Dash and Dice Mage 2 between the comparable periods.

Our Rapid-Launch Games' revenue decreased $1.16 million, or 34%, from $3.38 million for the year ended December 31, 2016 to $2.22 million for the year ended December 31, 2017. The decrease in revenue is attributable primarily to a decrease in advertising related bookings, stemming from a decrease in DAUs across our Rapid-Launch Games portfolio.

Cost of Revenue

	Year Ended December 31,	
	2017	2016
	(In thousands)	
Platform Fees	$ 933	$ 1,114
Licensing + Royalties	91	44
Hosting	10	10
Total Cost of Revenue	$ 1,034	$ 1,168
Revenue	3,141	3,732
Gross Margin	67%	69%

Our cost of revenue decreased $134 thousand, or 11%, from $1.17 million in the year ended December 31, 2016 to $1.04 million in the year ended December 31, 2017. This decrease was primarily due to a corresponding decrease in revenue during the same periods. Our Gross Margin decreased by two hundred basis points from 69% during the year ended December 31, 2016 to 67% during the year ended December 31, 2017. This decrease was primarily due to an increase in Licensing and Royalties payments made during the respective periods, corresponding to our 2017 Full-Featured Game launches.

Research and Development Expenses

	Year Ended December 31,	
	2017	2016
	(In thousands)	
Research and development	$ 141	$ 81
Percentage of revenue	4%	2%

Our research and development expenses increased $60 thousand, or 74%, from $81 thousand in the year ended December 31, 2016 to $141 thousand in the year ended December 31, 2017. The increase in research and development costs was primarily due to an increase in revenue share associated with our Rapid-Launch Games released in 2017.

Marketing Expenses

	Year Ended December 31,	
	2017	2016
	(In thousands)	
Marketing and public relations	$ 518	$ 472
Percentage of revenue	16%	13%

Our marketing expenses increased $46 thousand, or 10%, from $472 thousand in the year ended December 31, 2016 to $518 thousand in the year ended December 31, 2017. The increase in 2017 was primarily due to higher corporate marketing expenditures which was offset by lower game related marketing expenses.

General and Administrative Expenses

	Year Ended December 31,	
	2017	2016
	(In thousands)	
General and administrative	$ 1,375	$ 1,204
Percentage of revenue	44%	32%

Our general and administrative expenses increased $171 thousand, or 14%, from $1.20 million in the year ended December 31, 2016 to $1.38 million in the year ended December 31, 2017. The increase in general and administrative expenses was primarily due to increases in personnel and related expenditures, professional fees, travel & related expenses and insurance premiums during the comparable periods, combined with a one-time early move-out incentive received from our previous landlord during the fourth quarter of 2016.

	Year Ended December 31,	
	2017	2016
	(In thousands)	
Amortization of capitalized software development	$ 710	$ 767
Percentage of revenue	23%	21%

Our amortization of capitalized software development decreased $57 thousand or 7% from $767 thousand in the year ended December 31, 2016 to $710 thousand in the year ended December 31, 2017. The decrease in amortization of capitalized software development was attributable to a decrease in development expenditures relating to our Rapid-Launch Games, which was partially offset by an increase in in development expenditures relating to our Full-Featured Games.

Liquidity and Capital Resources

General

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has reported cash and cash equivalents of $247 thousand, a working capital deficit of $1.34 million as of December 31, 2017 and a net loss of $3.69 million for the year ended December 31, 2017. Despite these metrics, however, based on the subsequent event financing activities described in Note 13 above, the Company does not currently anticipate that additional financing will be required within the next twelve months.

	Year Ended December 31,	
	2017	2016
	(In thousands)	
Cash flows (used in) provided by:		
Operating activities	$ 275	$ 883
Investing activities	(822)	(1,195)
Financing activities	204	(585)
(Decrease) in cash and cash equivalents	$ (343)	$ (897)

Operating Activities

Our cash flow from operations varies significantly from quarter to quarter and from year to year, depending on our operating results and the timing of operating cash receipts and payments.

In the year ended December 31, 2017, net cash provided by operating activities was $275 thousand, which was primarily due to a $3.69 million net loss, a $124 thousand decrease in prepaid expenses, and a $1 thousand increase in accounts payable, accrued expenses and due to related parties. These amounts were offset by a $6 thousand decrease in accounts receivable, a $357 thousand increase in deferred revenue and adjustments for non-cash items, including stock-based compensation expense of $173 thousand, amortization of software development costs of $710 thousand, depreciation and amortization of other assets of $22 thousand, amortization of debt discount of $1.4 million, amortization of original issue discount of $341 thousand and a loss on extinguishment of $830 thousand.

In the year ended December 31, 2016, net cash provided by operating activities was $883 thousand, which was due to a net loss of $2.35 million, a $1 thousand increase in prepaid expenses, a $53 thousand decrease in accounts payable, accrued expenses and due to related parties. These amounts were offset by a $103 thousand increase in accounts receivable, and adjustments for non-cash items, amortization of software development costs of $767 thousand, depreciation and amortization of other assets of $50 thousand, amortization of debt discount of $1.11 million, amortization of original issue discount of $270 thousand.

Investing Activities

Cash used in investing activities in the year ended December 31, 2017 was $822 thousand, which was primarily due to $818 thousand of capitalized software development costs related to the development of our mobile games and $4 thousand of purchase of property, plant and equipment during the period.

Cash used in investing activities in the year ended December 31, 2016 was $1.19 million, which was primarily due to $1.19 million of capitalized software development costs related to the development of our mobile games, $14 thousand of purchase of property, plant and equipment and $14 thousand of Investment write-off during the period.

Financing Activities

Cash provided by financing activities in the year ended December 31, 2017 was $204 thousand, which was primarily due to $350 thousand in proceeds received from the sales of common stock and $100 thousand proceeds from capital contribution from non-controlling interest, offset by a $234 thousand principal repayment of our Senior Secured Convertible Debenture and $13 thousand of financing costs, related to the 2017 Amended Agreement, incurred during the period.

Cash used by financing activities in the year ended December 31, 2016 was $585 thousand, which was due to a $560 thousand principal repayment of our Senior Secured Convertible Debenture and $25 thousand of financing costs, related to the 2016 Exchange Agreement, incurred during the period.

Contractual Obligations and Other Commercial Commitments

Smaller reporting companies are not required to provide the information required by this item.

Off-Balance Sheet Arrangements

For the year ended December 31, 2017 and 2016 we did not have any "off-balance sheet arrangements," as defined in relevant Securities and Exchange Commission regulations that are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.