Tapinator, Inc.
Condensed Consolidated Financial Statements
Six months ended June 30, 2015
*(Unaudited)*

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Tapinator, Inc.
Condensed Consolidated Balance Sheets

| | June 30, 2015 (unaudited) Restated | December 31, 2014 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,845,462 | $ 121,740 |
| Accounts receivable | 261,934 | 130,681 |
| Prepaid expenses | 13,470 | - |
| Total current assets | 2,120,866 | 252,421 |
| Property and equipment, net | 7,841 | 17,500 |
| Software development costs, net | 1,207,045 | 1,260,865 |
| Capitalized financing costs, net | 108,135 | - |
| Investments | 19,086 | 19,086 |
| Security deposits | 14,040 | 19,840 |
| Total assets | $ 3,477,013 | $ 1,569,712 |
| Liabilities and stockholders' equity | | |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 4,171 | $ 56,925 |
| Due to related parties | 67,177 | 129,327 |
| Total current liabilities | 71,348 | 186,252 |
| Notes payable to related parties, net of debt discount | - | 203,954 |
| Senior convertible debenture, net of debt discount | 57,253 | - |
| Total liabilities | 128,601 | 390,206 |
| Redeemable Preferred Stock of subsidiary, $0.001 par value; zero and 1,000,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; zero and 773,499 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively | - | 773,499 |
| Stockholders' equity | | |
| Common Stock, $0.001 par value; 150,000,000 and 74,000,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; 56,909,303 and 55,031,871 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively | 56,909 | 55,032 |
| Series A Preferred Stock, $0.001 par value; zero and 22,500 shares authorized at June 30, 2015 and December 31, 2014, respectively; no shares issued and outstanding at June 30, 2015 and December 31, 2014 | - | - |
| Series B Preferred Stock, $0.001 par value; zero and 10,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; zero and 10,000 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively | - | 10 |
| Series C Preferred Stock, $1.00 par value; zero and 500,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; no shares issued and outstanding at June 30, 2015 and December 31, 2014 | - | - |
| Series D Preferred Stock, $1.00 par value; zero and 1,000,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; no shares issued and outstanding at June 30, 2015 and December 31, 2014 | - | - |
| Additional paid-in capital | 3,594,567 | 360,880 |
| Retained earnings | (303,064) | (9,915) |
| Total stockholders' equity | 3,348,412 | 406,007 |
| Total liabilities and stockholders' equity | $ 3,477,013 | $ 1,569,712 |

*See accompanying notes to unaudited condensed consolidated financial statements.*

Tapinator, Inc.
Condensed Consolidated Statements of Operations
*(Unaudited)*

| | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|---|---|
| | *Restated* | | *Restated* | |
| Revenue | $ 615,358 | $ 226,320 | $ 1,027,241 | $ 322,304 |
| Expenses | | | | |
| Platform fees | 184,311 | 67,736 | 316,310 | 96,499 |
| Research and development | 141,543 | 125,939 | 232,844 | 181,239 |
| Marketing | 41,795 | 40 | 54,302 | 173 |
| General and administrative | 391,028 | 20,206 | 504,863 | 40,102 |
| Total expenses | 758,677 | 213,921 | 1,108,319 | 318,013 |
| Operating income (loss) | (143,319) | 12,399 | (81,078) | 4,291 |
| Debt discount amortization | 114,146 | - | 151,646 | - |
| Interest expense | 40,899 | - | 56,653 | - |
| Pretax income (loss) | (298,364) | 12,399 | (289,377) | 4,291 |
| Income taxes | 626 | - | 3,772 | 25 |
| Net income (loss) | $ (298,990) | $ 12,399 | $ (293,149) | $ 4,266 |
| Net (loss) income per share: | | | | |
| Basic | ($0.01) | $0.00 | ($0.01) | $0.00 |
| Diluted | ($0.01) | $0.00 | ($0.01) | $0.00 |
| Weighted average common shares outstanding: | | | | |
| Basic | 55,285,873 | 38,111,442 | 55,159,574 | 37,409,620 |
| Diluted | 55,285,873 | 39,474,637 | 55,159,574 | 38,094,984 |

*See accompanying notes to unaudited condensed consolidated financial statements.*

Tapinator, Inc.
Consolidated Statements of Cash Flows
*(Unaudited)*

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income (loss) | $ (293,149) | $ 4,266 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 375,170 | 381 |
| Amortization of debt discount | 151,646 | - |
| Amortization of original issue discount | 18,107 | - |
| Stock based compensation | 5,175 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (131,253) | (105,173) |
| Prepaid expenses | (5,145) | - |
| Due from related parties | - | (47,370) |
| Security deposits | 5,800 | (110) |
| Accounts payable and accrued expenses | 79,347 | (6,215) |
| Due to related parties | (62,150) | 104,296 |
| Capitalized financing costs | (110,494) | - |
| Net cash provided by (used in) operating activities | 33,054 | (49,925) |
| | | |
| Cash flows from investing activities | | |
| Capitalized software development costs and other fixed assets | (309,332) | (3,078) |
| Investments | - | (12,500) |
| Net cash used in investing activities | (309,332) | (15,578) |
| | | |
| Cash flows from financing activities | | |
| Issuance of promissory notes | 2,000,000 | - |
| Stock subscriptions | - | 77,500 |
| Net cash provided by financing activities | 2,000,000 | 77,500 |
| | | |
| Net change to cash and cash equivalents | 1,723,722 | 11,997 |
| Cash and cash equivalents at beginning of period | 121,740 | 12,418 |
| Cash and cash equivalents at end of period | $ 1,845,462 | $ 24,415 |
| | | |
| Non-cash investing and financing activities | | |
| Redeemable preferred stock conversion | $ 773,499 | $ - |
| Common stock issued for convertible notes payable | $ 393,555 | $ - |

*See accompanying notes to unaudited condensed consolidated financial statements.*

## NOTE 1 — ORGANIZATION AND DESCRIPTION OF BUSINESS

Tapinator, Inc. (the "Company") conceptualizes, designs, develops, publishes, markets and monetizes mobile games for the Apple iOS, Google Play and Amazon Kindle gaming platforms. The Company offers original, full-featured games, as well as rapid-launch, mass-appeal games utilizing its cost-effective offshore development resources and technology.

The Company was originally incorporated in March 2005 in the state of Nevada. The Company migrated from Nevada to Delaware in December 2013, and acquired Tapinator, Inc., a Colorado corporation, on the migration date.

In June 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. All financial information presented for periods prior to the merger reflects only that of Tapinator LLC, and does not reflect the pre-merger Tapinator, Inc. assets, liabilities, or operating results. In addition, all share, per share and related Tapinator LLC information have been retrospectively adjusted to take into account the merger.

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Restatement of previously filed interim financial statements*

The Unaudited Condensed Consolidated Balance Sheet as of June 30, 2015, the Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and the disclosures in Note 7 have been restated. In preparation of our quarterly condensed financial statements for the period ended September 30, 2015, we have reassessed the availability of our authorized but unissued shares of common stock to settle the Company's outstanding warrants and the potential conversion of shares related to the senior secured convertible debenture. Accordingly, we have deemed to have sufficient authorized shares as of June 30, 2015, and the derivative and warrant liabilities recorded in the previously filed interim financials have been adjusted accordingly.

The following table reflects the affected line items adjusted and the adjustments to the restated amounts:

| Six Months Ended June 30, 2015 | As Previously Reported | Adjustment | As Restated |
|---|---|---|---|
| Total assets | 3,477,013 | - | 3,477,013 |
| Total liabilities | 6,823,172 | (6,694,571) | 128,601 |
| Total stockholders' (deficit) equity | (3,346,159) | 6,694,571 | 3,348,412 |
| Total net loss | (4,987,720) | 4,694,571 | (293,149) |

*Basis of Presentation and Consolidation*

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in conformity with United States generally accepted accounting principles ("GAAP"). The consolidated financial statements include the operations of the Company and its wholly-owned subsidiary, Tapinator IAF, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the Company's audited financial statements and related notes as contained in audited financial statements for the year ended December 31, 2014. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of the operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results of operations to be expected for the full year.

*Use of estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include assumptions used in the fair value of revenue recognition, long lived assets, stock-based compensation, and the fair value of other equity and debt instruments.

*Revenue recognition*

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

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

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

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

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

*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 June 30, 2015 and December 31, 2014, the Company did not have any derivative instruments that were designated as hedges.

*Fair Value of Financial Instruments*

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

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date of identical, unrestricted assets or liabilities.

- Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

As of June 30, 2015 and December 31, 2014, the Company had no assets or liabilities that required to be presented on the balance sheet at fair value in accordance with ASC 825, *Financial Instruments*.

*Platform 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.

*Reclassification*

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

*Recent Accounting Pronouncements*

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs, (*"the Update") as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The FASB received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit. To simplify presentation of debt issuance costs, the amendments in the Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the Update. For public business entities, the amendments in the Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in the Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Company is currently evaluating the effects of adopting the Update, if it is deemed to be applicable.

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

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

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 June 30, 2015 and December 31, 2014:

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| Leasehold improvements | $ | 1,144 | $ | 11,944 |
| Furniture and fixtures | | 4,793 | | 4,793 |
| Computer equipment | | 4,462 | | 2,285 |
| Property and equipment, cost | | 10,399 | | 19,022 |
| Less: accumulated depreciation and amortization | | (2,558) | | (1,522) |
| Property and equipment, net | $ | 7,841 | $ | 17,500 |

During the periods ended June 30, 2015 and December 31, 2014, depreciation and amortization expense was $1,036 and $1,395, respectively.

**NOTE 4 — CAPITALIZED SOFTWARE DEVELOPMENT**

Capitalized software development costs at June 30, 2015 and December 31, 2014 were as follows:

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| Mini-game software development assets (a) | $ | 876,718 | $ | 876,718 |
| Other internally developed software | | 740,524 | | 422,568 |
| Capitalized software development, cost | | 1,617,242 | | 1,299,286 |
| Less: accumulated depreciation and amortization | | (410,197) | | (38,421) |
| Capitalized software development, net | $ | 1,207,045 | $ | 1,260,865 |

(a) In October 2014, the Company purchased the mini-game software development business from a related party (the "Minigame Acquisition"). The purchase consideration included the assumption of secured promissory notes in the aggregate amount of $153,677 and the issuance of Tapinator IAF, LLC Redeemable Series A Preferred Stock with a potential future redemption value of $773,499. For accounting purposes, the Minigame Acquisition was recorded as an asset acquisition as there was not sufficient continuity of the acquired entity's operations prior to and after the transaction to qualify as a business.

At June 30, 2015 and December 31, 2014, the carrying value of software under development but not yet released to customers totaled $75,544 and $222,675, respectively.

**NOTE 5 — NOTES PAYABLE TO RELATED PARTIES**

Related party notes payable as of June 30, 2015 and December 31, 2014 were comprised of the following:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Convertible promissory note (a) | $ - | $ 150,000 |
| Secured promissory notes (b) | - | 153,677 |
| Royalty notes payable (c) | - | 55,000 |
| Accrued interest | - | 17,818 |
| Total notes payable | - | 376,495 |
| Less: | | |
| Debt discount – beneficial conversion feature | - | (112,500) |
| Debt discount – original issue discount | - | (60,041) |
| Notes payable to related parties, net | $ - | $ 203,954 |

(a) In September 2014, the Company issued a $150,000 convertible promissory note bearing interest at 10% per year to a shareholder. This note was originally due and payable on October 1, 2015, at which time any outstanding unpaid balance would be converted into the Company's common stock at a conversion price equal to 80% of the volume weighted average closing price of the common stock during the ten trading days prior to the conversion date, with a minimum price of $0.25, and a maximum price of $1.00. The Company recognized an embedded beneficial conversion feature of $150,000, which was recorded as a debt discount (to be amortized over the life of the note) and as an increase to additional paid-in capital as of the issuance date.

In April 2015, pursuant to a letter of acknowledgement received by the Company from the holder, such note was restated into two separate convertible promissory notes of $75,000 each, issued to the original note holder and to a related party, with same terms as the original note.

In June 2015, the two notes, after certain assignments, were each converted into 300,000 shares of the Company's common stock. On the conversion date, unamortized debt discount of $46,250 was accelerated, $11,028 of accrued interest was waived, and the notes were deemed paid in full.

(b) In October 2014, as part of the consideration of the Minigame Acquisition, the Company assumed $95,513 of promissory notes – representing face value of $153,677, plus accrued interest of $8,280, less unamortized original issuance discount of $66,444 – bearing interest at the rate of 13% through maturity, and secured by substantially all of the acquired software minigame assets.

In June 2015, pursuant to conversion agreements between the Company and the note holders, such notes were converted into 423,893 shares of Common Stock. The combined principal balance plus accrued interest of the notes on the date of conversion was $127,168.

(c) In December 2014, in exchange for $110,000 of proceeds, the Company sold a 12.5% royalty interest in the net revenues, as defined in the royalty agreements, to be generated by one of its original, full-featured games to two separate investors (6.25% was sold to each investor at $55,000), one of which is a shareholder, and the other a related entity of another shareholder.

In March 2015, the royalty agreement of the entity related to a shareholder was cancelled. The payments made prior to cancellation of $30,000 were reclassified as a convertible promissory note paying simple interest at the rate of 10% per year and maturing in March 2016. In June 2015, this note was converted into 149,146 shares of the Company's common stock. The principal balance plus accrued interest on the date of conversion was $30,575.

In June 2015, the royalty agreement of the shareholder was forgiven and cancelled. No royalty payments had been earned or paid prior to cancellation.

During 2015, the Company issued convertible promissory notes to a shareholder totaling a principal amount of $23,950, paying simple interest at the rate of 10% per year and maturing in March 2016. In June 2015, these notes were converted into 117,981 shares of the Company's common stock. The principal balance plus accrued interest on the date of conversion was $24,186.

## NOTE 6 — RELATED PARTY TRANSACTIONS

The Company utilizes the services of an officer/shareholder for the development of its rapid-launch, mass-appeal mobile games. Amounts expensed by the Company for such development services for the periods ended June 30, 2015 and December 31, 2014 were $176,648 and $333,731, respectively.

In July 2014, the Company purchased promissory notes with a principal amount of $91,000 plus accrued interest of $20,422 with a related party in exchange for 334,266 shares of the Company's common stock. Concurrent with this transaction, the Company entered into a services agreement with this related company whereby the Company received mobile game development services in exchange for (i) waiving of interest payments on the purchased notes, and (ii) a development fee of $180,000. Such development fee was offset against the outstanding balance on the notes and other loans extended to this related company. At December 31, 2014, the development fee was fully paid and the outstanding balance on the notes was zero.

## NOTE 7 — SENIOR SECURED CONVERTIBLE DEBTRURE

In June 2015, the Company raised $2.0 million through the sale of a $2.24 million 8% senior secured convertible debenture due January 1, 2017 with an initial conversion price of $0.205 per share. The conversion price is adjustable for any subsequent equity transactions with an effective price per share lower than the conversion price, but not lower than $0.10 per share. In addition, five-year Series A warrants were issued to purchase 10.9 million shares at an exercise price of $0.30 per share, and five-year Series B callable warrants were issued to purchase 10.9 million shares at an exercise price of $0.30 per share, which are exercisable only upon a payment default. The conversion price is adjustable for any subsequent equity transactions with an effective price per share lower than the conversion price, but not lower than $0.10 per share. Certain officers, directors and other affiliates of the Company have pledged 29 million shares as security for the debenture.

The Company recognized an embedded beneficial conversion feature of $2.0 million, which was recorded as a debt discount to be amortized over the life of the note. For the six months ended June 30, 2015, $13,749 was charged to interest expense as amortization of the debt discount.

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

## NOTE 8 — REDEEMABLE PREFERRED STOCK

In October 2014, as part of the consideration of the Minigame Acquisition, the Company issued $773,499 worth of new redeemable Series A preferred stock in Tapinator IAF, LLC, a newly created subsidiary, to the equity holders of the selling company, a related party. In June 2015, pursuant to conversion agreements between the Company and the shareholders of the Redeemable Series A Preferred Stock, such stock was exchanged for 257,833 shares of the Company's common stock.

## NOTE 9 — STOCKHOLDERS' EQUITY (DEFICIENCY)

Prior to June 15, 2015, the authorized capital of the Company consisted of 74,000,000 shares of common stock, par value $0.001 per share and 1,532,500 shares of preferred stock, consisting of 22,500 shares designated as Series A with a par value of $0.001 per share, 10,000 shares designated as Series B with a par value of $0.001 per share, 500,000 shares designated as Series C with a par value of $1.00 per share, and 1,000,000 shares designated as Series D with a par value of $1.00 per share. On June 15, 2015, the Company filed an Amendment to its Certification of Incorporation increasing the total number of shares of all classes of stock of which the Corporation shall have authority to issue to 151,532,500 shares, of which 150,000,000 shares, par value of $0.001 shall be designated as common stock and 1,532,500 shares shall be designated as preferred stock with a par value of $0.001 unless stated otherwise within any series' designation of preferred stock.

In June 2015, all of the holders of Series B preferred stock converted their shares into 36,764 shares of the Company's common stock. As of June 30, 2015, there were no Series B shares authorized, issued or outstanding.

In April 2015, the Company retained the services of a consultant in exchange for 45,000 shares of the Company's common stock valued at $13,500. The value of the stock on the date of grant is being amortized over the six month term of the service agreement.

In June 2015, the Company issued 246,815 shares of common stock pursuant to the conversion terms of a convertible promissory note. The principal balance plus accrued interest on the date of conversion was $50,597.

**NOTE 10 — WARRANTS**

During the six months ended June 30, 2015, the Company granted warrants in connection with the senior secured convertible debentures as disclosed in Note 7. As of June 30, 2015, 20,853,658 warrants are outstanding. The warrant terms are 5 years expiring on June 19, 2020.

| | June 30, 2015 | |
|---|---|---|
| | Number of Warrants | Weighted average exercise price |
| Outstanding, January 1, 2015 | - | $ - |
| Granted | 20,853,658 | 0.30 |
| Exercised | - | - |
| Expired | - | - |
| Outstanding, June 30, 2015 | 20,853,658 | $ 0.30 |
| Exercisable at the end of period | 10,926,829 | $ 0.30 |

**NOTE 11 — SUBSEQUENT EVENTS**

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