

Soul & Vibe Interactive Inc.
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
X ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016**

**OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

Commission File Number 000-55091

SOUL AND VIBE INTERACTIVE INC.

(Exact name of registrant as specified in its charter)

Nevada

(State of incorporation)

6548 South Big Cottonwood Canyon Road, Suite 200

Salt Lake City, Utah, 84121

(Address of principal executive offices)

(763) 400-8040

(Registrant's telephone number)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. **YES** **NO**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **YES** **NO**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer **Accelerated Filer**
Non-accelerated Filer **Smaller Reporting Company**
(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES **NO**

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of May 13, 2016, there were 533,533,916 shares of the registrant's \$0.001 par value common stock issued and outstanding.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| PART I | |
| Item 1. <u>Condensed Consolidated Financial Statements</u> | F-1 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 1 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 4 |
| Item 4. <u>Controls and Procedures</u> | 4 |
| PART II | |
| Item 1. <u>Legal Proceedings</u> | 5 |
| Item 1A. <u>Risk Factors</u> | 5 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 5 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 5 |
| Item 4. <u>Mine Safety Disclosures</u> | 5 |
| Item 5. <u>Other Information</u> | 5 |
| Item 6. <u>Exhibits</u> | 5 |
| <u>Signatures</u> | 6 |

Special Note Regarding Forward-Looking Statements

Information included in this Form 10-Q contains forward-looking statements that may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Soul and Vibe Interactive Inc. (at times referred to as “SVI”) and its wholly owned subsidiaries (at times referred to as “Soul” and collectively with SVI, the “Company”), to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” or “project” or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

| | |
|--|------------|
| <u>Condensed Consolidated Balance Sheets</u> | F-2 |
| <u>Unaudited Condensed Consolidated Statements of Operations</u> | F-3 |
| <u>Unaudited Condensed Consolidated Statements of Cash Flows</u> | F-4 |
| <u>Notes to the Unaudited Condensed Consolidated Financial Statements</u> | F-5 |

F-1

SOUL AND VIBE INTERACTIVE INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

| | March 31, 2016 (unaudited) | December 31, 2015 |
|--|----------------------------------|-------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$5,084 | \$7,090 |
| Accounts Receivable | 244 | 463 |
| Prepaid Expenses | 14,873 | 31,450 |
| Total Current Assets | 20,201 | 39,003 |
| Fixed Assets | | |
| Furniture and Equipment | 14,526 | 14,526 |
| Accumulated Depreciation | (4,610) | (3,940) |
| Total Fixed Assets | 9,916 | 10,586 |
| Other Assets | | |
| Development Costs, net of accumulated amortization of \$141,583 and \$116,475 as of March 31, 2016 and December 31, 2015, respectively | 385,572 | 398,680 |
| Total Assets | \$415,689 | \$448,269 |
| LIABILITIES AND SHAREHOLDER'S DEFICIT | | |
| Current Liabilities | | |
| Accounts payable | \$429,151 | \$430,512 |
| Related party payable | 29,350 | 22,068 |
| Accrued expenses | 593,669 | 470,901 |
| Note payable | 21,580 | 27,580 |
| Current portion of convertible debentures, net of discount of \$221,786 and \$171,768 as of March 31, 2016 and December 31, 2015, respectively | 113,652 | 170,399 |
| Derivative liability | 1,158,539 | 1,313,673 |
| Total Current Liabilities | 2,345,941 | 2,435,133 |
| Long-term portion of convertible debentures, net of discount of \$119,039 and \$102,143 as of March 31, 2016 and December 31, 2015, respectively | 22,376 | 12,129 |

Edgar Filing: Soul & Vibe Interactive Inc. - Form 10-Q

| | | |
|---|-------------|-------------|
| Total Liabilities | 2,368,317 | 2,447,262 |
| Shareholder's Deficit | | |
| Preferred Stock, \$0.001 par value, 10,000,000 authorized, 130,000 issued and outstanding as of March 31, 2016 and December 31, 2015 | 130 | 130 |
| Common Stock, \$0.001 par value, 750,000,000 authorized, 237,642,126 and 60,840,309 issued and outstanding as of March 31, 2016 and December 31, 2015, respectively | 237,642 | 60,840 |
| Common Stock Held in Escrow | (25) | (25) |
| Additional Paid-in Capital | 4,673,028 | 4,548,031 |
| Accumulated Deficit | (6,863,403) | (6,607,969) |
| Total Shareholder's Deficit | (1,952,628) | (1,998,993) |
| Total Liabilities & Shareholder's Deficit | \$415,689 | \$448,269 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SOUL AND VIBE INTERACTIVE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

| | For the Three Months Ended March 31, 2016 (unaudited) | For the Three Months Ended March 31, 2015 (unaudited) |
|---------------------------------------|---|---|
| Revenues | \$1,125 | \$2,622 |
| Cost of Sales | (40,435) | (13,262) |
| Gross Loss | (39,310) | (10,640) |
| Operating Expenses | | |
| General & Administrative | 138,236 | 299,052 |
| Professional Fees | 90,565 | 148,576 |
| Total Operating Expenses | 228,801 | 447,628 |
| Operating Loss | (268,111) | (458,268) |
| Other Income (Expense) | | |
| Gain (Loss) on Derivative | (36,860) | 709,310 |
| Gain (Loss) on Extinguishment of Debt | 172,774 | (8,096) |
| Interest Expense | (123,237) | (85,499) |
| Total Other Income (Expense) | 12,677 | 615,715 |
| Income (loss) before Income Taxes | (255,434) | 157,447 |
| Income Taxes | - | - |
| Net Income (loss) | \$(255,434) | \$157,447 |
| Income per Share | | |
| Basic | \$0.00 | \$0.15 |
| Diluted | \$0.00 | \$0.10 |

Edgar Filing: Soul & Vibe Interactive Inc. - Form 10-Q

Weighted Average Shares Outstanding

| | | |
|---------|-------------|-----------|
| Basic | 144,696,582 | 1,025,465 |
| Diluted | 144,696,582 | 1,544,490 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

F-3

SOUL AND VIBE INTERACTIVE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

| | For the Three Months Ended March 31, 2016 (unaudited) | For the Three Months Ended March 31, 2015 (unaudited) |
|--|---|---|
| Cash Flows from Operating Activities | | |
| Net Income (loss) | \$(255,434) | \$ 157,447 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation | 670 | 474 |
| Amortization of debt discount | 115,164 | 88,164 |
| Amortization of software development costs | 25,108 | 12,465 |
| Common stock issued for services | - | 44,151 |
| (Gain) loss on derivative | 36,860 | (709,310) |
| (Gain) loss on extinguishment of debt | (172,774) | 8,096 |
| Common stock and warrants issued as compensation | - | 147,587 |
| Changes in Operating Assets and Liabilities: | | |
| Decrease in accounts receivable | 219 | 2,961 |
| Decrease in prepaid expenses | 16,577 | 51,882 |
| Increase in accounts payable | 5,921 | 14,970 |
| Increase in accrued expenses | 133,683 | 100,000 |
| Increase in accrued interest | - | 2,652 |
| Net cash used in operating activities | (94,006) | (78,461) |
| Cash Flows from Investing Activities | | |
| Cash paid for development costs | (12,000) | (12,000) |
| Net cash used in investing activities | (12,000) | (12,000) |
| Cash Flows from financing activities | | |
| Repayment of related party notes payable | - | (2,500) |
| Repayment of notes payable | (6,000) | - |
| Payment of debt issuance costs | - | (5,000) |
| Proceeds from the issuance of convertible debenture and notes payable | 110,000 | 156,000 |
| Proceeds from sale of common stock and warrants, net of offering costs | - | - |

Edgar Filing: Soul & Vibe Interactive Inc. - Form 10-Q

| | | |
|--|------------|------------|
| Net cash provided by financing activities | 104,000 | 148,500 |
| Net increase (decrease) in cash | (2,006) | 58,039 |
| Cash Balance at Beg of Period | 7,090 | 25,752 |
| Cash Balance at End of Period | \$ 5,084 | \$ 83,791 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | \$ - | \$ - |
| Cash paid for income taxes | \$ - | \$ - |
| Supplemental Disclosure of NonCash Transactions | | |
| Debenture principal converted to capital stock | \$ 123,424 | \$ 15,000 |
| Debt discount removed upon extinguishment of debt | \$ 91,671 | \$ 14,959 |
| Derivative liability removed upon extinguishment of debt | \$ 455,494 | \$ 16,667 |
| Capital stock issued for prepaid expenses | \$ - | \$ 71,100 |
| Fair value of derivative conversion option recorded as debt discount | \$ 263,500 | \$ 156,000 |
| Discount on issuance of convertible debenture and notes payable | \$ 10,250 | \$ 10,906 |
| Accrued interest converted to debt principal in note exchange | \$ 8,974 | \$ 5,293 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 - Nature of Operations and Continuance of Business

The unaudited interim condensed consolidated financial statements included herein have been prepared by Soul and Vibe Interactive Inc. (“**SVI**”) and its wholly owned subsidiaries Soul and Vibe Entertainment, Inc., and Soul and Vibe Publishing, Inc., both Nevada corporations (“**Soul**,” and collectively with SVI, the “**Company**”) in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (the “**SEC**”). Soul and Vibe Entertainment, Inc. is doing business as Soul and Vibe Documentation services in the State of Utah. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2015, as filed with the SEC. We believe that all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein and that the disclosures made are adequate to make the information not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited consolidated financial statements for the most recent fiscal year as reported in Form 10-K have been omitted.

Note 2 - Summary of Significant Accounting Policies

Derivative Instruments

The Company accounts for derivative instruments in accordance with ASC Topic 815, *Derivatives and Hedging*, all derivative instruments are reflected as either assets or liabilities at fair value in the balance sheet. The Company uses estimates of fair value to value its derivative instruments. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company’s policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company’s liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model’s output to

market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable. The Company categorizes its fair value estimates in accordance with ASC 820 based on the hierarchical framework associated with the three levels of price transparency utilized in measuring financial instruments at fair value as discussed above.

F-5

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Basic and Diluted Earnings Per Share

The basic net income per common share is computed by dividing the net income by the weighted average number of common shares outstanding. Diluted net income per common share is computed by dividing the net income adjusted on an “as if converted” basis, by the weighted average number of common shares outstanding plus potential dilutive securities.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which amended Interest – Imputation of Interest of the Accounting Standards Codification. The amended guidance requires that debt issuance costs related to a recognized debt liability, which were presented as deferred charges (assets), be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendments is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective for annual and interim periods beginning after December 15, 2018. It is to be adopted using a modified retrospective approach. The Company is currently evaluating the impact that the adoption of this guidance will have on the Company’s financial statements.

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Reclassifications

The presentation of certain items in the condensed consolidated financial statements for the year ended December 31, 2015 has been changed to conform to the classifications used in 2016. These reclassifications had no effect on stockholders' equity or net income as previously reported.

Note 3 - Going Concern

The accompanying condensed 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. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of business. Through March 31, 2016, the Company had incurred cumulative losses of \$6,863,403 since inception. Additionally, the Company has accumulated significant losses, has negative working capital, and a deficit in shareholder's equity. All of these items raise substantial doubt about its ability to continue as a going concern. In view of these matters, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to raise additional capital and generate revenues from its operations. The financial statements do not include classification of recorded asset amounts or amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. Management devoted considerable effort during the three month period ended March 31, 2016, towards (i) consolidating pre-existing debt and cleaning up its balance sheet while simultaneously pursuing obtaining additional equity financing, (ii) evaluation of its distribution and marketing methods, and (iii) identifying and negotiating development/publishing and product acquisition opportunities for the Company. In addition, the Company began to generate its first revenues in the first quarter of 2014 and has continued to generate revenue, every quarter, through the first quarter of 2016.

Management's plans with respect to alleviating the adverse financial conditions that caused the Company's independent auditors to express substantial doubt about the Company's ability to continue as a going concern are as follows:

Management requires \$2.5M to \$3.0M in financing in order to begin execution of its business plan and to continue operations. This capital, if raised, would be utilized over a twelve-month period. The financing will cover the acquisition of pick-ups (depending on the value of the financing, also the development of a proprietary intellectual property (IP) product) along with the release of the games and entertainment apps as well as the marketing and public relations (PR) expenses associated with bringing them to market on a variety of hardware platforms that include: video game consoles, mobile devices, and personal computers (which also includes browser-based social media platforms, such as Facebook.) The anticipated number of pick-ups is two. The financing would also cover general and administrative expenses, operational expenses and will allow the Company to secure an initial number of premium full-time employees. The Company is currently evaluating financing opportunities that are compatible with its growth plans and business model. Additional financing (beyond the identified \$2.5M to \$3.0M; cumulatively of \$5.0M) would allow the Company to pursue development of multiple projects “from scratch” and publish them in a “staggered” release, as per its current three-year business plan.

Note 4 - Related Party Transactions

Notes Payable

During the three month period ended March 31, 2015, the Company paid an amount due of \$2,500 to an officer of the Company. This amount was unsecured and bore no interest.

Related Party Convertible Notes Payable

During July 2013, the Company received \$9,000 in exchange for a Convertible Note with a maturity value of \$10,000 and a warrant to purchase up to 834 shares of the Company’s common stock for a period of two years at a price of \$0.60 per share. The convertible note is unsecured, due one year from the date of issue and accrues interest at a rate of approximately 10% per annum. During August 2014 an agreement was signed extending the due date of the convertible note to February 2015. Pursuant to this agreement, the holder was issued a warrant to purchase 1,000 additional shares of the Company’s common shares for a period of two years at a price of \$0.06 per share. The warrants that were issued in July 2013 expired during the quarter ended June 30, 2015. The warrants that were issued in August 2014 are scheduled to expire in August 2016 if not exercised or “called” by the Company prior to expiration.

The Company valued the initial warrant and beneficial conversion feature of the convertible note at \$10,000, which was recorded as a discount to the convertible note. This discount was being amortized over the initial life of the convertible note, which expired in July 2014. The Company valued the additional warrant at \$1,728, which was recorded as a discount to the convertible note. This discount is being amortized over the remaining life of the convertible note or until such time as the convertible note is repaid or converted, or upon exercise of the warrants. During the three months ended March 31, 2015, the Company amortized \$324 of this debt discount to interest

expense. There was no amortization in the three months ended March 31, 2016. In July 2015, warrants for 834 shares of the Company's Common stock, which were issued in July 2013 in connection with one Convertible Note, expired. The warrants that were issued in August 2014 are scheduled to expire in August 2016 if not exercised or "called" by the Company prior to expiration.

F-7

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

During May 2015, the Company issued an exchange note to an accredited investor in substitution for \$32,024 of previously outstanding convertible note balance and the accrued interest balance to an unrelated third party, pursuant to an exchange agreement. The July 2013 Convertible Note was included in this exchange. The exchange note was issued with a maturity value of \$32,024, is due in May 2016, bears no interest and is convertible into shares of the Company at a rate equal to 65% of the average of the lowest three trading prices during the 25 consecutive trading days immediately preceding the conversion date. The note also stipulates a conversion limitation, whereby the holder may not convert more than 33.33% of the principal balance within a 15-day period during the 90 days following the date of issuance. The note principal was converted into 525,066 shares during 2015. There is no outstanding balance as of December 31, 2015.

Related Party Payable

The Company owes an officer of the Company \$29,350 and \$22,068 as of March 31, 2016 and December 31, 2015, respectively which relates to expense reimbursement.

Note 5 - Convertible Debentures

During the year ended December 31, 2015, the Company issued various convertible debentures in the total amount of \$514,476: \$339,500 cash; \$18,406 original issue discount; \$50,000 services; \$29,899 adjustment to principal; and \$76,671 for accrued interest payable. In addition in 2015, a total principal balance of \$419,982 was extinguished through the conversion of principal to common shares of the Company. The debentures issued in 2015 are unsecured and bear simple interest ranging from 0% to 10% per annum, with maturities ranging from three months to three years. The outstanding principal and accrued interest of the debentures are convertible into shares of the Company's common stock at variable discounted pricing based conversion prices defined in the underlying agreements. Debentures 1 – 3 were convertible at a fixed price but were exchanged into notes with variable discounted pricing before any conversions took place.

The following is a schedule of the convertible debentures outstanding as of December 31, 2015:

Edgar Filing: Soul & Vibe Interactive Inc. - Form 10-Q

| Description | Date | Conversion Price | Original Principal Amount | Unpaid Principal Balance | Term | Interest Rate |
|----------------------------|------------|------------------|---------------------------|--------------------------|-----------|---------------|
| Debenture 1 | 8/8/2013 | Fixed | \$ 105,000 | \$0 | 18 months | 10% |
| Debenture 2 | 8/8/2013 | Fixed | 7,778 | 0 | 18 months | 10% |
| Debenture 3 | 8/8/2013 | Fixed | 10,000 | 0 | 18 months | 10% |
| Debenture 4 | 9/18/2014 | Variable | 210,667 | 0 | 9 months | 10% |
| Debenture 5 | 2/3/2015 | Variable | 55,556 | 0 | 24 months | 12% |
| Debenture 6 | 3/12/2015 | Variable | 58,850 | 0 | 12 months | 10% |
| Debenture 7 | 3/16/2015 | Variable | 52,500 | 26,100 | 12 months | 8% |
| Debenture 8 | 3/20/2015 | Variable | 110,293 | 0 | 12 months | 10% |
| Debenture 9 | 4/21/2015 | Variable | 53,500 | 42,156 | 12 months | 8% |
| Debenture 10 | 5/7/2015 | Variable | 32,024 | 0 | 12 months | 0% |
| Debenture 11 | 5/11/2015 | Variable | 250,799 | 76,411 | 12 months | 10% |
| Debenture 12 | 6/2/2015 | Variable | 45,000 | 41,500 | 12 months | 8% |
| Debenture 13 | 9/16/2015 | Variable | 28,000 | 28,000 | 12 months | 10% |
| Debenture 14 | 10/9/2015 | Variable | 28,000 | 28,000 | 12 months | 8% |
| Debenture 15 | 9/16/2015 | Variable | 25,000 | 0 | 18 months | 10% |
| Debenture 16 | 9/25/2015 | Variable | 33,850 | 4,059 | 12 months | 12% |
| Debenture 17 | 10/20/2015 | Variable | 50,000 | 50,000 | 6 months | 2% |
| Debenture 18 | 10/23/2015 | Variable | * | 53,897 | 17 months | 2% |
| Debenture 19 | 10/26/2015 | Variable | ** | 25,000 | 29 months | 1% |
| Debenture 20 | 10/26/2015 | Variable | *** | 0 | 29 months | 1% |
| Debenture 21 | 11/9/2015 | Variable | 10,000 | 10,000 | 12 months | 10% |
| Debenture 22 | 11/23/2015 | Variable | 5,000 | 5,000 | 24 months | 0% |
| Debenture 23 | 12/2/2015 | Variable | 11,500 | 11,500 | 12 months | 10% |
| Debenture 24 | 12/4/2015 | Variable | 28,500 | 28,500 | 12 months | 10% |
| Debenture 25 | 12/4/2015 | Variable | **** | 26,316 | 17 months | 2% |
| Total at December 31, 2015 | | | \$ 1,211,817 | \$ 456,439 | | |
| Less discount | | | | (273,911) | | |
| | | | | \$ 182,528 | | |
| Less current portion | | | | (170,399) | | |
| | | | | 12,129 | | |

* Convertible debenture was transferred from Debenture 11 in the table above.

** Convertible debenture was transferred from Debenture 16 in the table above.

*** Convertible debenture was transferred from Debenture 15 in the table above.

**** Convertible debenture was transferred from Debenture 18 in the table above.

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

During the three month period ending March 31, 2016, the Company issued various convertible debentures in the total amount of \$143,839: \$110,000 cash; \$10,250 original issue discount; \$14,615 adjustment to principal; and \$8,974 for accrued interest payable. In addition in 2016, a total principal balance of \$123,424 was extinguished through the conversion of principal to common shares of the Company. The debentures issued in 2016 are unsecured and bear simple interest of 2% to 10% per annum, with maturities of one year. The outstanding principal and accrued interest of the debentures are convertible into shares of the Company's common stock at variable discounted pricing based conversion prices defined in the underlying agreements. Debentures 1 – 3 were convertible at a fixed price but were exchanged into notes with variable discounted pricing before any conversions took place.

The following is a schedule of the convertible debentures outstanding as of March 31, 2016:

| Description | Date | Conversion Price | Original Principal Amount | Unpaid Principal Balance | Term | Interest Rate |
|--------------|------------|------------------|---------------------------------|--------------------------------|-----------|---------------|
| Debenture 1 | 8/8/2013 | Fixed | \$105,000 | \$0 | 18 months | 10% |
| Debenture 2 | 8/8/2013 | Fixed | 7,778 | 0 | 18 months | 10% |
| Debenture 3 | 8/8/2013 | Fixed | 10,000 | 0 | 18 months | 10% |
| Debenture 4 | 9/18/2014 | Variable | 210,667 | 0 | 9 months | 10% |
| Debenture 5 | 2/3/2015 | Variable | 55,556 | 0 | 24 months | 12% |
| Debenture 6 | 3/12/2015 | Variable | 58,850 | 0 | 12 months | 10% |
| Debenture 7 | 3/16/2015 | Variable | 52,500 | 9,700 | 12 months | 8% |
| Debenture 8 | 3/20/2015 | Variable | 110,293 | 0 | 12 months | 10% |
| Debenture 9 | 4/21/2015 | Variable | 53,500 | 20,989 | 12 months | 8% |
| Debenture 10 | 5/7/2015 | Variable | 32,024 | 0 | 12 months | 0% |
| Debenture 11 | 5/11/2015 | Variable | 250,799 | 0 | 12 months | 10% |
| Debenture 12 | 6/2/2015 | Variable | 45,000 | 28,500 | 12 months | 8% |
| Debenture 13 | 9/16/2015 | Variable | 28,000 | 3,000 | 12 months | 10% |
| Debenture 14 | 10/9/2015 | Variable | 28,000 | 28,000 | 12 months | 8% |
| Debenture 15 | 9/16/2015 | Variable | 25,000 | 0 | 18 months | 10% |
| Debenture 16 | 9/25/2015 | Variable | 33,850 | 4,059 | 12 months | 2% |
| Debenture 17 | 10/20/2015 | Variable | 50,000 | 0 | 6 months | 2% |
| Debenture 18 | 10/23/2015 | Variable | * | 7,356 | 17 months | 2% |
| Debenture 19 | 10/26/2015 | Variable | ** | 25,000 | 29 months | 1% |
| Debenture 20 | 10/26/2015 | Variable | *** | 0 | 29 months | 1% |

Edgar Filing: Soul & Vibe Interactive Inc. - Form 10-Q

| | | | | | | |
|--------------|------------|----------|--------|---------|-----------|-----|
| Debenture 21 | 11/9/2015 | Variable | 10,000 | 10,000 | 12 months | 10% |
| Debenture 22 | 11/23/2015 | Variable | 5,000 | 5,000 | 24 months | 0% |
| Debenture 23 | 12/2/2015 | Variable | 11,500 | 11,500 | 12 months | 10% |
| Debenture 24 | 12/4/2015 | Variable | 28,500 | 28,500 | 12 months | 10% |
| Debenture 25 | 12/4/2015 | Variable | **** | 0 | 17 months | 2% |
| Debenture 26 | 1/18/2016 | Variable | 81,000 | 81,000 | 12 months | 10% |
| Debenture 27 | 1/22/2016 | Variable | * | 100,000 | 16 months | 5% |
| Debenture 28 | 1/22/2016 | Variable | ***** | 50,000 | 3 months | 2% |
| Debenture 29 | 3/22/2016 | Variable | ***** | 25,000 | 6 months | 10% |
| Debenture 30 | 3/22/2016 | Variable | 39,250 | 39,250 | 12 months | 10% |

| | | |
|-------------------------|-------------|-----------|
| Total at March 31, 2016 | \$1,332,067 | \$476,854 |
| Less discount | | (340,826) |

| | | |
|----------------------|--|-----------|
| | | \$136,028 |
| Less current portion | | (113,652) |
| | | 22,376 |

- * Convertible debenture was transferred from Debenture 11 in the table above.
- ** Convertible debenture was transferred from Debenture 16 in the table above.
- *** Convertible debenture was transferred from Debenture 15 in the table above.
- **** Convertible debenture was transferred from Debenture 18 in the table above.
- ***** Convertible debenture was transferred from Debenture 17 in the table above.
- ***** Convertible debenture was transferred from Debenture 13 in the table above.

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Debenture 7 matured on March 16, 2016 but was not paid in full. The Company and the holder of the note were in agreement that the note would be extended until the note was fully converted. In April 2016, the note was fully converted into approximately 35,094,000 shares.

Subsequent to March 31, 2016, Debenture 18 was fully converted in April 2016 for approximately 30,554,000 shares.

Accrued interest payable for the convertible debentures was \$14,887 and \$17,896 as of March 31, 2016 and December 31, 2015, respectively.

Scheduled maturity of debt are as follows at March 31, 2016:

| | |
|----------------------------|-----------|
| 2016 | 215,189 |
| 2017 | 232,606 |
| 2018 | 29,059 |
| Less discount | (340,826) |
| Net convertible debentures | 136,028 |

Note 6 – Derivative Liabilities

The Company evaluated the convertible debentures discussed in Note 5 (with the exception of debentures 1 – 3 which were considered under ASC Topic 470) in accordance with ASC Topic 815, “Derivatives and Hedging,” and determined that the conversion feature of the convertible promissory notes were not afforded the exemption for conventional convertible instruments due to their variable conversion rates. The notes have no explicit limit on the number of shares issuable so they did not meet the conditions set forth in current accounting standards for equity classification. The Company elected to recognize the notes under paragraph 815-15-25-4, whereby there would be a separation into a host contract and derivative instrument. The Company elected to initially and subsequently measure the notes in their entirety at fair value, with changes in fair value recognized in earnings. The Company recorded a derivative liability

representing the imputed interest associated with the embedded derivative. The debt discount is amortized over the life of the note and recognized as interest expense.

During the three months ended March 31, 2016 and 2015, the Company amortized debt discount of \$115,164 and \$84,164 to interest expense, respectively. For purpose of estimating the fair value of the derivative liability, the Company used the Black Scholes option valuation model. The derivative liability is adjusted periodically according to stock price fluctuations and other inputs and was \$1,158,539 and \$1,313,673 at March 31, 2016 and December 31, 2015, respectively.

F-10

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

At March 31, 2016 and December 31, 2015, the convertible debentures and related accrued interest payable were convertible into approximately 1,878,261,000 and 247,328,000 shares of common stock, respectively. The Company would have insufficient authorized shares to complete the debt conversions if all of the loans were converted.

The Company valued the conversion option derivatives using the Black-Scholes option-pricing model using the following level 3 input assumptions: (1) risk-free interest rate of 0.18% to 0.73%, (2) lives of 0.05 to 1.96 years, (3) expected volatility of 261% to 434%, (4) zero expected dividends, (5) conversion prices as set forth in the Convertible Debt Instruments, and (6) the common stock price of the underlying shares on the valuation date.

The following table summarizes the derivative liabilities included in the balance sheet at March 31, 2016:

| | |
|--|--------------|
| Conversion option derivative liabilities December 31, 2014 | \$ 1,081,318 |
| Addition of new conversion option derivatives | 2,531,803 |
| Reclassification of conversion option derivative to gain on extinguishment of debt | (1,917,734) |
| Change in fair value | (381,714) |
| | |
| Derivative liability at December 31, 2015 | 1,313,673 |
| Addition of new conversion option derivatives | 460,664 |
| Reclassification of conversion option derivative to gain on extinguishment of debt | (455,494) |
| Change in fair value | (160,304) |
| Derivative liability at March 31, 2016 | \$ 1,158,539 |

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities measured at fair value on:

March 31, 2016:

Edgar Filing: Soul & Vibe Interactive Inc. - Form 10-Q

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|---------|---------|-------------|-------------|
| Assets | \$ - | \$ - | \$- | \$- |
| Liabilities | - | - | - | - |
| Derivative financial instruments | \$ - | \$ - | \$1,158,539 | \$1,158,539 |

December 31, 2015:

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|---------|---------|-------------|-------------|
| Assets | \$ - | \$ - | \$- | \$- |
| Liabilities | - | - | - | - |
| Derivative financial instruments | \$ - | \$ - | \$1,313,673 | \$1,313,673 |

Note 7 – Common Stock and Common Stock Warrants

Common Stock

As of January 7, 2016, the Company amended their articles of incorporation to increase the number of authorized shares of common stock, par value \$0.001 per share, from 300,000,000 to 750,000,000.

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Pursuant to an employment agreement, an officer of the Company was eligible to receive 164,000 shares of the Company's common stock (Note 8). These shares have not been issued as of March 31, 2016. The share issuance valued at \$604 and \$564 have been accrued as of March 31, 2016 and December 31, 2015, respectively, within accrued expenses.

During the three months ended March 31, 2015, \$15,000 of note principal, as described in Note 5, was converted into 24,510 common shares. During the three months ended March 31, 2016, \$123,424 of note principal, as described in Note 5, was converted into 176,801,817 common shares.

Common Stock Warrants

The following table summarizes the outstanding warrants and associated activity for the three months ended March 31, 2016:

| | Number of Warrants Outstanding | Weighted Average Price | Weighted Average Remaining Contractual Life |
|----------------------------|--------------------------------------|---------------------------|--|
| Balance, December 31, 2014 | 44,001 | 9.91 | 3.00 |
| Granted | 100,000 | 1.20 | 5.00 |
| Exercised | - | - | - |
| Expired | 6,973 | 29.28 | - |
| Balance, December 31, 2015 | 137,028 | \$ 2.57 | 3.50 |
| Granted | - | - | - |
| Exercised | - | - | - |
| Expired | - | - | - |
| Balance, March 31, 2016 | 137,028 | \$ 2.57 | 3.25 |

Soul and Vibe Interactive Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 8 – Employment Agreement

On January 20, 2015, we executed an Employment Agreement with Peter Anthony Chiodo, which was effective as of January 1, 2015. Pursuant to the Agreement, Mr. Chiodo will continue to serve as The Company's Chief Executive Officer. The term of the Agreement commenced on January 1, 2015 and is for a period of five years, unless terminated sooner pursuant to the terms of the Agreement. Mr. Chiodo will be paid a base salary of \$160,000, subject to annual adjustments, in addition to a signing bonus of \$60,000. Mr. Chiodo will be entitled to receive an aggregate of 100,000 shares of the Company's common stock, (the "Common Stock"), of which 24,000 such shares were issued immediately with the remaining 76,000 shares issuable at the rate of 4,000 shares per quarter on the first day of each quarter beginning April 1, 2015 and continuing up to and including December 31, 2019. At the discretion of the Executive, and to preserve the Company's cash position, Mr. Chiodo is entitled to receive monthly compensation in the form of Common Stock pursuant to the terms of the Agreement. There are approximately 60,000 shares remaining on this agreement. The remaining shares to be issued at the rate of 4,000 shares per quarter on the first day of each quarter continuing April 1, 2016 and continuing up to and including December 31, 2019. Also related to the execution of this agreement, the Company issued a warrant to purchase 100,000 commons shares of the Company's common stock (Note 7). Additionally, pursuant to the terms of the employment agreement, the Chief Executive Officer has the option to receive his compensation in cash or in the form of the Company's common stock. The total issuable shares under the provision are determined using 70% of the volume-weighted average share price of the five days immediately preceding the end of the month in which the services were earned. The value of the shares will be based on the closing price of the end of the month in which the services were earned. This employment agreement is effective for five years and contains an automatic renewal provision for a period of one year.

Note 9 – Note Payable

On April 24, 2015, the Company entered into a promissory note for \$42,080 for services provided. The note carries an interest rate of 5%. The note requires monthly payments of \$2,000 and matures in April 2016. The note is personally guaranteed by the chief executive officer of the Company. The outstanding balance of the note at December 31, 2015 and March 31, 2016 is \$27,580 and \$21,580, respectively.

Subsequent to March 31, 2016, the Company replaced the note above for \$65,672 for additional services provided. The replacement note requires monthly payments of \$2,700 and matures in May 2017. The note is personally guaranteed by the chief executive officer of the Company.

Note 10 – Subsequent Events

Subsequent to March 31, 2016, the Company filed for a reverse split with a potential range of 1:100 – 1:150 (the “spring 2016 reverse split.”) The company’s authorized will not be impacted by the reverse split; once the “spring 2016 reverse split” is effective the company’s authorized will remain 750,000,000.

Subsequent to March 31, 2016, the Company issued a total of approximately 295,892,000 shares of the Company’s common stock. All shares were issued in exchange for \$46,813 of convertible note principal and \$1,629 accrued interest.

During April 2016, an unrelated third party paid the debt holder of the convertible debenture issued on December 4, 2015 with \$28,500 outstanding at March 31, 2016 and it is considered paid in full. The new convertible debenture balance is \$51,000 and is the first tranche. The convertible debenture note has a maturity value of \$102,000. Interest on the note accrues at the rate of 10% per annum. The note is due one year from the date of each installment and is convertible using a conversion price of 50% of the lowest trade price (or a 50% discount to market) occurring during the 25 trading days immediately preceding the conversion date.

During April 2016, the Company entered into a development-publishing agreement with Origin Studios to create a line of four (4) interactive books. The new entertainment apps will be based on proprietary Company IP. The first of the four (4) books is anticipated to launch during the third quarter of 2016 and it is further anticipated that each successive app in the line will launch one per quarter through the second quarter of 2017.

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

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements that involve known and unknown risks, significant uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, or implied, by those forward-looking statements.

You can identify forward-looking statements by the use of the words may, will, should, could, expects, plans, anticipates, believes, estimates, predicts, intends, potential, proposed, or continue or the negative of those terms.

These statements are only predictions. In evaluating these statements, you should consider various factors, which may cause our actual results to differ materially from any forward-looking statements. Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

RESULTS OF OPERATIONS

Working Capital

| | March 31, 2016 | December 31, 2015 |
|---------------------------|-------------------|-------------------------|
| Current Assets | \$20,201 | \$39,003 |
| Current Liabilities | 2,345,941 | 2,435,133 |
| Working Capital (Deficit) | \$(2,325,740) | \$(2,396,130) |

Cash Flows

| | Three months ended March 31, 2016 | Three months ended March 31, 2015 |
|---|--------------------------------------|--------------------------------------|
| Cash Flows Used in Operating Activities | \$ (94,006 |) \$ (78,461 |

Edgar Filing: Soul & Vibe Interactive Inc. - Form 10-Q

| | | | | |
|---|-----------|---|-----------|---|
| Cash Flows Used in Investing Activities | (12,000 |) | (12,000 |) |
| Cash Flows Provided by Financing Activities | 104,000 | | 148,500 | |
| Net Increase (Decrease) in Cash During Period | \$ (2,006 |) | \$ 58,039 | |

Balance Sheet

As at March 31, 2016, the Company had total assets of \$415,689 compared with total assets of \$448,269 as at December 31, 2015. The assets are mainly comprised of cash and development costs. The decrease in development costs are primarily due to amortization of the development costs.

The Company had total liabilities of \$2,368,317 at March 31, 2016, compared with \$2,447,262 as at December 31, 2015. The decrease in total liabilities is mainly attributable to the decrease of \$174,376 in the derivative liability.

Operating Expenses

During the three months ended March 31, 2016, the Company incurred operating expenses totaling \$228,801 compared with \$447,628 for the three months ended March 31, 2015. The decrease in operating expenses is primarily attributable to a reduction in marketing and consulting expenses as the Company is currently between product launches.

Net Income (Loss)

During the three months ended March 31, 2016, the Company realized net loss of \$255,434 compared with net income of \$157,447, for the three months ended March 31, 2015. The decrease in net income from the three month period ended March 31, 2015 to the three month period ended March 31, 2016 was primarily due to a smaller decrease in the gain (loss) on derivative and the Company is currently between product launches.

In 2014, Timeless Gems, a video game, was released on Facebook, through Apple's App Store for iPhone, iPad, and iPod Touch mobile devices, and through Google Play for Android devices. In addition to the development and release of the core Timeless Gems product, two packages of expansion content for Timeless Gems were developed and released during the 2nd and 3rd quarters of 2014. A third package of expansion content for Timeless Gems was developed during 2014 and 2015; this package of expansion content was released in December 2015.

In June 2014, day and date with the opening game of the 2014 World Cup Soccer tournament, the company released a second video game product, Striker Rush: Champion Edition. Striker Rush: Champion Edition was released, worldwide, through Apple's App Store (for iPhone, iPad, and iPod Touch mobile devices), and through Google's Google Play and Amazon.com (for Android devices) in concert with its development partner, 1DER Entertainment.

During the fourth quarter of 2013, the Company entered into a development/publishing agreement with 1DER Entertainment for SirVival, an interactive game. As a part of the development/publishing agreement, the Company acquired the SirVival IP from 1DER Entertainment. Through fiscal year 2014 and the first two quarters of 2015, the Company continued the development of SirVival; the game was released, worldwide, on Facebook, Google's Google Play, and Apple's App Store (for iPhone, iPad, and iPod Touch) during the third quarter of 2015. In addition to the development and release of the SirVival video game product, one package of expansion content for SirVival entered development during the fourth quarter of 2014 and continued through 2015, but this package has neither been announced nor released. The Company will formally announce the targeted release date of this expansion pack at a later date.

In June 2015, the Company announced a new (second) publishing label, Soul and Vibe Music. Soul and Vibe Music is a proprietary music-publishing label that publishes music content through downloadable/streamable distribution channels that include, but are not limited to, the likes of: Apple Music, iTunes, Spotify, Google Play, Amazon, Rdio, Deezer, Tidal, YouTube Music Key, Beats/MediaNet, and Microsoft Groove. The Company aims to leverage its existing, and to develop new, music assets that are associated with its licensed-brands and internally generated intellectual properties as stand-alone "premium" music soundtrack and single-track and/or multi-track music single product releases. It is the Company's intent that these music soundtrack and single-track and/or multi-track music single product releases will double as potential revenue-generating cross-promotional marketing vehicles for the Company's video games and entertainment apps based on licensed-brands and internally generated intellectual properties. As of March 31, 2016, Soul and Vibe Music has released one full-length soundtrack, "Songs of SirVival," and five multi-track music singles, "SirVival and Tantrum," "Who Is Gurk Burkle?," "Smorgon Magma, The Black Rider," "Spellbound," and "Bugaboo, A Bump In The Night." Development commenced during the fourth quarter of 2015 on "Bugaboo, A Bump In The Night," and the multi-track music single was both formally announced and released in February 2016. The development of a sixth multi-track music single, "Revenge, Volume I," commenced during the first quarter of 2016, but it was neither formally announced nor released until March 2016.

As the Soul and Vibe Music label grows, the Company intends to pursue the licensing of music for (i) inclusion in its games and apps and (ii) to release, via downloadable/streamable distribution channels, as "premium" stand-alone and/or

compilation music product releases. The Company also anticipates it will contract music industry subject matter experts as consultants to help broaden the label's product mix. The Company anticipates that a broadened product mix for the Soul and Vibe Music label will increase consumer awareness, build IPs, create cross-promotional opportunities across its growing product portfolio, and drive revenue.

To date, all music content published by Soul and Vibe Music are copyrighted assets of the Company. Each individual music track is a unique asset that is identifiable through a proprietary ISRC code. EPs are identifiable through a proprietary UPC code. The music content that comprises Soul and Vibe Music releases are each recognized by the music identification service, Shazam. The music content that comprises Soul and Vibe Music releases as of March 31, 2016 are, also, cross-promoted (on iTunes) via the Options Menu of the Company's SirVival video game.

In August 2015, the Company announced a new (third) publishing label, Soul and Vibe Books. Soul and Vibe Books is a proprietary publishing label that specializes in the development and launch of digitally distributed electronic books ("e-books" and "interactive storybooks.") The Company aims to leverage its licensed-brands and internally generated intellectual properties as stand-alone "premium" entertainment app e-books. It is the Company's intent that these e-books will double as potential revenue-generating cross-promotional marketing vehicles for the Company's video games and entertainment apps based on licensed-brands and internally generated intellectual properties. During the three months ended March 31, 2016, the Company continued the development of a four-product line of e-books based on the Company's John Deere licensed brand. The first product in the four-product line, Johnny Tractor and Friends: County Fair, was launched on Apple's App Store for iPhone, iPad, and iPod Touch in September 2015 and on Google's Google Play and Amazon (for Android devices) in October 2015. The Company launched a second e-book, Johnny Tractor and Friends: Snow Day, in December 2015 for the aforementioned platforms. During the first quarter of 2016, the Company continued development on a third e-book, Johnny Tractor and Friends: Growing Season, which was formally announced and launched in April 2016 also for the aforementioned platforms. The Company anticipates it will formally announce, and release, the fourth e-book in the line during the late 2nd quarter / early 3rd quarter of 2016. Ultimately, it is the Company's intent to localize all four e-books in the line into a variety of languages including, but not limited to, French, German, Spanish, and Italian. The Company anticipates that localized versions of its e-books will be released, albeit on a staggered release schedule, throughout fiscal year 2016; the localized versions of its e-books will be released as title updates via Apple's App Store, Google's Google Play, and Amazon.

On November 30, 2015, the Company announced its line of John Deere-branded Johnny Tractor and Friends e-books will be cross-promoted with TOMY International (“TOMY”) toys that are also based on the Johnny Tractor and Friends IP. Commencing in December 2015, and continuing through 2016, TOMY’s line of John Deere-branded Johnny Tractor and Friends toys will feature, within the packaging, a two-sided pack-in poster. The Company’s Johnny Tractor and Friends series of e-books is highlighted on one side of the poster, and a robust selection from TOMY’s diverse line of Johnny Tractor and Friends toys is highlighted on the other. In addition, each of the Company’s Johnny Tractor and Friends interactive storybooks cross-promotes TOMY’s toys via a color full-screen image that appears at the end of each e-book. TOMY’s line of Johnny Tractor and Friends toys are available at Target, Walmart, Toys”R”Us, Amazon, and many other fine retail and online merchants. The Company anticipates that the cross-promotional relationship with TOMY will increase consumer awareness for the Soul and Vibe Books label and its line of e-book products.

As the Soul and Vibe Books label grows, the Company intends to expand its e-book product mix to feature additional lines based on both the Company’s proprietary IPs and other licensed-brands. The Company also anticipates it will pursue a broadening of the supported hardware platforms on which its e-books can be read. The Company anticipates that expanded platform support, and a broadened product mix for the Soul and Vibe Books label, will increase consumer awareness, build IPs, and drive revenue.

During the three months ended March 31, 2016, the Company announced it was developing a John Deere-branded video game product, John Deere: Pocket Farm. The Company anticipates it will formally release John Deere: Pocket Farm during the third quarter of 2016. It is anticipated that the Company’s forthcoming John Deere-branded video game will be released for play on iOS and Android platform mobile devices, Apple TV, and social media platforms.

During the three months ended March 31, 2016, the Company also continued the development of additional products that, as of March 31, 2016, have not been publically announced. It is anticipated that these products will be released into the market beginning in the third quarter of 2016 on hardware platforms such as Facebook, through Apple’s App Store for iPhone, iPad, iPod Touch mobile devices and Apple TV, through Google Play and Amazon.com for Android devices and Kindle Fire devices, and potentially on the Windows Mobile Platform with possible future support for Xbox Live, as a feature set, primarily to coincide with Microsoft’s continued multi-platform rollout of Windows 10.

Liquidity and Capital Resources

As of March 31, 2016, the Company had a cash balance of \$5,084 and a working capital deficit of \$2,325,740 compared with a cash balance of \$7,090 and working capital deficit of \$2,396,130 at December 31, 2015. The increase in working capital is primarily due to a decrease in the derivative liability.

Cash Flows from Operating Activities

During the three months ended March 31, 2016, the Company used \$94,006 of cash in operating activities compared with use of \$78,461 of cash in operating activities during the three months ended March 31, 2015. The increase in the use of cash for operating activities is mainly attributable to a decrease in net income.

Cash Flows from Investing Activity

During the three months ended March 31, 2016, the Company used \$12,000 of cash in investing activities compared with \$12,000 of cash used during the three months ended March 31, 2015. The cash used in investing activities remained consistent.

Cash Flows from Financing Activities

During the three months ended March 31, 2016, the Company received \$104,000 of cash from financing activities compared with the receipt of \$148,500 of cash during the three months ended March 31, 2015. During the three months ended March 31, 2016 the Company secured financing from two convertible notes payable and is continuing to search for future debt and equity financing. The Company is using proceeds received from the issuance of common stock and convertible debentures to fund product development costs, product marketing and product publicity costs, and general and administrative expenses.

Going Concern

We have not attained profitable operations and are dependent upon obtaining financing to pursue any extensive acquisitions and activities. For these reasons, our auditors stated in their report on our audited financial statements that they have substantial doubt that we will be able to continue as a going concern without further financing. Our intended source of future cash flow to fund our growth model until we are able to establish profitable operations are through additional debt and equity offerings.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Future Financings

We will continue to rely on the issuance of debt and equity in order to continue to fund our business operations. Issuances of additional shares will result in dilution to existing stockholders. There is no assurance that we will achieve any additional sales of the equity securities or arrange for debt or other financing to fund planned acquisitions and exploration activities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined) in Exchange Act Rules 13a – 15(c) and 15d – 15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our principal executive officer and principal financial officer does not expect that our disclosure controls will prevent all error and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives and our principal executive officer and principal financial officer has determined that our disclosure controls and procedures are effective at doing so, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented if there exists in an individual a desire to do so. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the three months ended March 31, 2016, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not a party to any pending legal proceeding, nor is our property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the three months ended March 31, 2016, \$123,424 in note principal was converted into 176,801,817 shares of Common Stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

- 31.1 Section 302 Certification of Principal Executive Officer+
- 31.2 Section 302 Certification of Principal Financial Officer+
- 32.1 Section 906 Certification of Principal Executive Officer and Principal Financial Officer*
- 101.INS XBRL Instance Document +
- 101.SCH XBRL Taxonomy Extension Schema Document +
- 101.CAL XBRL Taxonomy Calculation Linkbase Document +
- 101.LAB XBRL Taxonomy Labels Linkbase Document +
- 101.PRE XBRL Taxonomy Presentation Linkbase Document +
- 101.DEF XBRL Definition Linkbase Document +

+filed herewith

*furnished herewith

