

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 000-55151

SPINDLE, INC.

(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

20-8241820
(I.R.S. Employer
Identification No.)

1201 S. Alma School Rd., Suite 12500
Mesa, Arizona 85210
(Address of principal executive offices)
(Zip Code)

(800) 560-9198
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class
Not applicable

Name of Exchange
Not applicable

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 past 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 (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The aggregate market value of common stock held by non-affiliates of the registrant, 65,719,939 shares, as of June 30, 2016, was \$12,486,788 based on the closing price per share reported on such date.

As of April 7, 2017, the registrant has 75,925,199 shares of common stock, par value \$0.001, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

SPINDLE, INC.
FORM 10-K
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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (the "Annual Report") contains forward-looking statements about Spindle Inc.'s ("SPDL," "we," "us," or the "Company") business, financial condition and prospects that reflect management's assumptions and beliefs based on information currently available. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of our management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, Spindle's actual results may differ materially from those indicated by the forward-looking statements. You should not place undue reliance on these forward-looking statements.

The key factors that are not within our control and that may have a direct bearing on operating results include, but are not limited to, whether our services are accepted in the marketplace, our ability to expand our customer base, our management's ability to raise capital in the future, the retention of key employees and changes in the regulation of our industry.

There may be other risks and circumstances that management may be unable to predict. When used in this Annual Report, words such as, "*believes*," "*expects*," "*intends*," "*plans*," "*anticipates*," "*estimates*" and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions.

Forward-looking statements express expectations of future events. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties that could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, the investment community is urged not to place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this report and we undertake no obligations to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to projections over time.

PART I

Item 1. Business.

Company History

Spindle, Inc. is an innovator of merchant and consumer-facing commerce solutions focused on the Small and Medium-sized Business ("SMB") market. The Company was originally incorporated in the State of Nevada on January 8, 2007 as "Coyote Hills Golf, Inc." We were previously an online retailer of golf-related apparel, equipment and supplies. Prior to the acquisition of the assets of Spindle Mobile, Inc. ("Spindle Mobile"), as described below, we generated minimal revenues from the golf-related business.

On December 2, 2011, we acquired certain assets and intellectual property from Spindle Mobile, a Delaware corporation in the business of data processing, mobile payments fields and other related fields, in exchange for approximately 80% of our issued and outstanding common stock of the Company, which shares were distributed to the stockholders of Spindle Mobile, Inc., pursuant to the terms and conditions of an Asset Purchase Agreement (the "Spindle Mobile Agreement").

Concurrent with the closing of the Spindle Mobile Agreement, we amended our articles of incorporation to change our name from "Coyote Hills Golf, Inc." to "Spindle, Inc." Additionally, we changed our authorized capital from 100,000,000 shares of common stock and 100,000,000 shares of preferred stock, \$0.001 par value to 300,000,000 shares of common stock, \$0.001 par value, and 50,000,000 preferred stock, \$0.001 par value. The actions were approved on November 11, 2011, by the consent of the majority stockholders who represented 90% of our issued and outstanding common stock, and were effective on December 2, 2011.

On December 31, 2012 (the "Parallel Acquisition Closing Date"), pursuant to that certain Asset Purchase Agreement (the "Parallel Agreement") by and between the Company and Parallel Solutions Inc., a Nevada corporation ("Parallel"), the Company acquired, substantially all of Parallel's assets used in connection with its business of facilitating electronic payment processing services to merchants (the "Parallel Assets"), assumed certain specified liabilities and hired seven employees of Parallel in exchange for 538,570 unregistered shares of common stock, of which 53,857 shares (the "Parallel Indemnification Escrow") and 100,000 shares (the "Parallel Deferred Consent Escrow") were deposited in escrow with our transfer agent. The Parallel Indemnification Escrow was released on January 23, 2014. On October 29, 2013, the Parallel Deferred Consent Escrow was released to Parallel after certain specified contract assignments and residual revenue streams were assigned to the Company pursuant to the Parallel Agreement.

On March 20, 2013 (the "MeNetwork Closing Date"), the Company assumed certain liabilities and acquired substantially all of the assets of MeNetwork, Inc., a Delaware corporation ("MeNetwork"), (2) on March 20, 2013, substantially all of the assets of MeNetwork, Inc. ("MeNetwork") used in connection with its business of developing, marketing and licensing a mobile marketing platform for use by merchants and consumers (the "MeNetwork Assets"), pursuant to an Asset Purchase Agreement dated March 1, 2013 by and between Spindle and MeNetwork (the "MeNetwork Agreement"). As consideration for the assumption of the liabilities and the acquisition of the MeNetwork Assets, the Company issued an aggregate of 2,750,000 shares of common stock to the stockholders of MeNetwork, of which 350,000 were deposited in escrow with our transfer agent for the purposes of satisfying any indemnification claims. The MeNetwork Indemnification Escrow was released pursuant to the MeNetwork Agreement. On October 7, 2013, the Company issued an additional 750,000 shares of common stock to Ashton Craig Page, the former director and Chief Operating Officer of MeNetwork and a former director of the Company, pursuant to the terms and conditions of the MeNetwork Agreement. On December 12, 2014, the Company, and Ashton Craig Page, in his capacity as the representative of MeNetwork and the MeNetwork Stockholders (the "Representative"), entered into an Amendment and Waiver to Asset Purchase Agreement (the "Amendment"), pursuant to which the Company agreed to issue and the Representative agreed to accept on behalf of MeNetwork and the MeNetwork Stockholders an acceleration of the issuance of up to an aggregate of 1,000,000 Earnout Shares on or before December 31, 2014 in full satisfaction of all obligations of the Company to issue the Earnout Shares pursuant to the Purchase Agreement during the Earnout Period. These shares were issued on December 23, 2014.

On January 3, 2014, the Company acquired substantially all of the assets of Y Dissolution, Inc., a Delaware corporation (formerly known as Yowza International, Inc.) (“Yowza!!”), used in connection with the business of providing retail coupons through a mobile application pursuant to an Asset Purchase Agreement, dated December 10, 2013, by and between the Company and Yowza!! in exchange for \$500,000 and 1,642,000 unregistered shares of the Company’s common stock issued to (1) the holders of Yowza!!’s outstanding capital stock, and (2) certain executive management members and advisors of Yowza!!.

On October 23, 2015 (the “Closing Date”) the Company completed the acquisition of specific assets of Catalyst Business Development, Inc. (“Catalyst”) pursuant to an Asset Purchase Agreement, dated September 14, 2015, by and between the Company and Catalyst in exchange for 300,000 unregistered shares of the Company’s common stock issued to the holders of Catalyst stock. The consideration amounted to \$75,000 using a fair value of \$0.25 per share at the Closing Date. The assets acquired include a white-labeled license of the Merchant Partners solution and various assets related to branding, marketing and sales. We continue to operate the gateway under the Catalyst brand.

Because we are still growing our business, we have not earned enough revenue to support our operations and we are not profitable. To date, we have funded our operations through sales of our equity securities and loans from related parties. We cannot guarantee that we will ever be profitable.

Business Description

Spindle delivers a broad range of commerce solutions with the capability to serve merchants of all sizes. The solutions include payment processing technology and equipment as well as integrated marketing programs. Spindle’s robust Catalyst platform enables us to deliver mission critical business functions such as payment processing in the US and abroad. Specifically, the functionality within Catalyst Gateway has the ability to manage transactions in more than 130 countries. Domestically, the Catalyst Gateway also has Eurocard-MasterCard-Visa (“EMV”) ready solutions and is fully PCI compliant. Our Catalyst digital marketing solutions link directly to payment processing scenarios enabled by our integrated components. We believe the services we provide to merchants are unique in the market, giving us distinct competitive advantages that have the potential to generate sustainable growth and profitability through enhancing consumer engagement for the merchants we serve, while driving transaction growth for merchants and Spindle alike.

Merchant Services

Spindle executed a Member Service Provider (“MSP”) agreement with Worldpay US, Inc. (“Worldpay”) and Citizen Bank, N.A. in 2016. Spindle is a registered Agent of Citizens Bank, N.A. Providence, RI.

In response to the widespread instances of fraud with consumer debit and credit cards, the card associations are actively promoting the move to the chip card infrastructure, also known as the EMV standard. The EMV standard helps reduce the instances of reproduced stolen credit cards by employing a secure interaction with the chip on the card. The card associations are driving the move to EMV by shifting the liability to merchants who accept a fraudulent card when the card was issued as an EMV card, but accepted as a mag strip transaction. It is anticipated that fraud will migrate to merchants who have not yet moved to EMV, thus increasing losses and risk for those merchants.

Integrated Payment Technology

Catalyst Gateway

Spindle acquired the Catalyst Gateway license as part of the asset acquisition from Catalyst Business Development, Inc. which was finalized on October 23, 2015. The Catalyst Gateway is a branded license of the Merchant Partners software. The gateway license was contracted for Spindle directly with WorldPay, the current domestic master license holder for the Merchant Partners gateway software. Spindle will continue to operate the gateway under the Catalyst brand delivering solutions to both direct merchants and reseller channels.

The diverse suite of commerce tools within the Catalyst Gateway delivers significant processing capabilities that were critical additions necessary to expand our service offering. The Catalyst Gateway is PCI certified through the Merchant Partners certification that applies to all resellers and private label gateways. The Catalyst Gateway has EMV-ready solutions, enabling merchants to comply with EMV standards.

The Catalyst Gateway offers the ability to board merchants with EMV compliant POS terminals from industry leading companies such as Ingenico, Verifone and others. Our gateway also enables Virtual or Web-based terminals and e-commerce transactions through integrations with leading shopping cart providers such as Magento, WooCommerce and zencart, among several others. The Catalyst Gateway Application Program Interface (“API”) and Software Development Kit (“SDK”) tools offer developers various options to enable connectivity through the majority of the top programming languages. Additionally, we can provide developers with the ability to board merchants on traditional acquiring platforms as well as through PSP programs.

Market Conditions in the Payment Processing Industry

The payment processing industry will continue to evolve and experience new market entrants with new technology and security regulations. As merchants and acquiring banks seek services to enhance their own offerings to consumers, EMV chip-based cards are required to be adopted in order to maintain current security standards. As EMV becomes more widely adopted, the industry expects a redistribution of fraud to points left vulnerable, thus there will be a need for adapted security and fraud management services, information services, and support for omni-commerce environments. To meet this evolving need, we will provide solutions and training to our merchants in order to ensure best practices for security and compliance are adopted.

Competition

Merchant Services

The merchant services business is highly competitive. Competitors range from the large acquiring banks like Bank of America Merchant Services, to Chase Paymentech, to smaller MSPs who specialize in specific verticals. It is this structural attrition forced by new technology and compliance that affords Spindle market opportunity to acquire new merchants and deliver a new value proposition through delivering marketing solutions with integrated payment technology. The most significant competitive factors in our segment are price, breadth of features and functionality, data security, system performance and reliability.

Payment processing services are becoming commoditized, driving MSPs, ISOs and payment processors to seek out new value added features and benefits to add to their platforms in order to not only attract, but also retain merchants. While payment processing is a core strength, Spindle believes that the richly featured elements of our Catalyst Platform offer merchants unique services that will not only help grow their customer base, but also create the loyalty necessary to retain them. This provides us with the ability to add more sales channel partners in the payments industry that do not have the ability to create or deliver the integrated marketing solutions we can provide.

Marketing Services

Spindle believes that few competitors are capable of delivering a similar complete offering to merchants as our Catalyst commerce solutions deliver. With a focus on digital marketing, the direct response nature of digital offers will allow for better consumer segmentation, targeting, tracking of redemptions and automated attribution to specific promotional campaign spend that provides our merchants with a measurable ROI. In addition, the speed and adaptability of digital marketing allows retailers to reach and influence consumers while they are shopping. Digital marketing allows for quick edits and can modify the scale and scope of campaigns dynamically based on consumer interest and marketing budgets. This compares favorably to traditional print advertising, which requires longer lead times and represents a more manual and expensive process due to print and physical distribution requirements

Our Growth Strategy

Sales and Marketing

During 2016, Spindle focused on shifting our marketing activities from servicing the “micro” merchant market using our PSP - as was our focus for several years - to driving sales growth through providing merchants of all sizes with our Catalyst Platform offering, which delivers SaaS solutions encompassing marketing and integrated commerce solutions.

Our key strategic initiatives focus on leveraging our own internal marketing and sales capabilities, along with distribution channels, in order to increase merchant conversions to our platform and transactional growth for our merchant customers, resulting in increased processing revenues. We plan to:

- Invest in and leverage our direct sales model to drive organic sales growth;
- Broaden and deepen our distribution channels to grow our reseller and subsequent merchant client base;
- Differentiate through value-added services that address evolving client demands and provide additional cross-selling opportunities, including marketing, fraud management, ease of connection and delivery, and support for omni-channel environments; and
- Enter new market segments and expand sales capacity through strategic partnerships, acquisitions, and through bolstering our direct sales, marketing and service capabilities.

Spindle’s plan is to attract, market to, and retain its customers through the expansion of the Catalyst platform, as well as process payments for goods and services sold through it. We will reach our merchants via direct sales and marketing and through our growing reseller channels. Direct sales are generated using Spindle employees and contract labor, web traffic, and resellers to extend our reach into specialized markets leveraging the services of the Catalyst Gateway. Our resellers fund the sales efforts and receive a wholesale buy rate or revenue share for their sales efforts and they deliver bundled solutions to their customers. Resellers will sell branded solutions to leverage the national brand identity and expand the reach of our Catalyst commerce solutions. Spindle plans to create and grow a commerce ecosystem or marketplace where consumers and merchants are connected, and in some cases, connected in a way where the consumer audience is captive.

Spindle believes that it is not simply enough to provide an ecosystem where consumers and merchants are just connected. Consumers must be driven to action and “transact”, or make a purchase. Without a sale, there is no commerce. With our Catalyst commerce solutions platforms, there are numerous ways to drive transactions and generate revenue.

- The Catalyst digital marketing services engine will provide the ability to:
 - o Market directly to consumers through a variety of digital mediums, including; digital video, social media, email, mobile, websites, SMS and MMS, kiosks, POS and terminal integrations:
 - o Track consumer’s interests and understand the circumstances under which they make purchases: and
 - o Use that information to create and deliver consumer-specific offers to sharply increase transaction probability and generate revenues for the Company.
- Spindle also plans to create verticals that service specific markets;
 - o Such verticals could be constructed in a way that the interests of the consumers and merchants are already aligned.
 - o For example, a sports vertical platform where coaches can manage all aspects of a teams’ activities can be connected to sports-themed ecommerce companies that are on the platform. Transactions can be driven by required purchases of uniforms and gear for each of the seasonal sports.
 - o The Catalyst digital marketing services engine can also be used to drive impulse sales in vertical markets, also generating revenues for the Company.

Acquisitions

We plan to build new business growth through organic sales with the addition of merchants boarded on our Catalyst Platform. We also look to increase our technical capabilities and revenue generation through accretive strategic acquisitions. In 2015, Spindle acquired the Catalyst Gateway license, intellectual property and other assets from Catalyst Business Development, Inc. while adding talent to our management team. We will continue to identify unique opportunities which we believe will enhance our product features and functionality, revenue goals, and market penetration. Our acquisitions have generally been consummated through the issuance of our common stock.

We are targeting specific software solutions to increase our ability to market our solutions effectively and engage merchants and consumers alike in order to increase transactional growth.

Employees

We currently have five full-time employees, including executive management, client services and technical administration and implementation. We also have two contract employees engaged in channel sales and accounting. We work with outside consultants at times and we have no labor union contracts.

Government Regulations

We are subject to regulations that affect the electronic payment industry in which our service is used. In particular, the banks and financial institutions that we provide services to are subject to regulations applicable in the United States and abroad, and, consequently, we may be affected by such regulations. Regulation of the financial services industry has seen rapid change in recent years, including the passage of the Patriot Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including the Durbin Amendment (the “Dodd-Frank Act”). The Dodd-Frank Act establishes regulation and oversight by the U.S. Federal Reserve Board of debit interchange rates and certain other network industry practices.

Among other things, it requires debit and prepaid “interchange transaction fees” (referred to in the Dodd-Frank Act as fees established, charged or received by a payment card network for the purpose of compensating an issuer for its involvement in an electronic debit transaction) to be “reasonable and proportional to the cost incurred by the issuer with respect to the transaction”. We believe that, as a small issuer with less than \$10 billion in assets, our payment service is exempt from this provision of the Dodd-Frank Act. If at any time these regulations should change, there would be an impact on our business model due to the costs of compliance with such regulations.

Additionally, the Dodd-Frank Act provides that neither an issuer nor a payment card network may establish exclusive debit network arrangements or inhibit the ability of a merchant to choose among different networks for routing debit transactions. Under alternative rules proposed by the Federal Reserve, either (1) a debit card would meet the requirements of the Dodd-Frank Act as long as it could be used in at least two unaffiliated networks, or (2) each debit card would be required to function in at least two unaffiliated networks for each method of authorization that the cardholder could use for transactions (i.e., two signature and/or two PIN networks).

The Dodd-Frank Act also created two new independent regulatory bodies in the Financial Reserve System. The Consumer Financial Protection Bureau has significant authority to regulate consumer financial products, including consumer credit, deposit, payment, and similar products; although it is not clear whether and/or to what extent the Bureau will be authorized to regulate broader aspects of payment card network operations. The Financial Stability Oversight Council is tasked, among other responsibilities, with identifying “systemically important” payment, clearing and settlement systems that will be subject to new regulation, supervision and examination requirements, although it is not clear whether Spindle would be deemed “systemically important” under the applicable statutory standard. If Spindle were deemed to be “systemically important,” it could be subject to new risk management regulations relating to its payment, clearing, and settlement activities. New regulations could address areas such as risk management policies and procedures; collateral requirements; participant default policies and procedures; the ability to complete timely clearing and settlement of financial transactions; and capital and financial resource requirements. In addition, a “systemically important” payment system could be required to obtain prior approval from the U.S. Board of Governors of the Federal Reserve System or another federal agency for changes to its system rules, procedures or operations that could materially affect the level of risk presented by that payment system. These developments or actions could increase the cost of operating our business and may make payment card transactions less attractive to card issuers, as well as consumers. This could result in a reduction in our payments volume and revenues.

Item 1A. Risk Factors.

We are subject to various risks that may materially harm our business, prospects, financial condition and results of operations. An investment in our common stock is speculative and involves a high degree of risk. In evaluating an investment in shares of our common stock, you should carefully consider the risks described below, together with the other information included in this report.

The risks described below are not the only risks we face. If any of the events described in the following risk factors actually occurs, or if additional risks and uncertainties later materialize, that are not presently known to us or that we currently deem immaterial, then our business, prospects, results of operations and financial condition could be materially adversely affected. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment in our shares. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. Our business is subject to numerous risks.

You should carefully consider the following risk factors and all other information contained in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission ("SEC"). Any of these risks could adversely affect our business, results of operations, financial condition and prospects.

Risks Related to our Business

We have incurred losses since our inception and cannot assure you that we will achieve profitability.

The Company has an accumulated deficit of \$28,193,972 and \$19,112,115 as of December 31, 2016, and December 31, 2015, respectively. The extent of our future operating losses and the timing of profitability are highly uncertain and we may never achieve or sustain profitability. We cannot assure you that we will ever generate sufficient revenues from our operations to achieve profitability. If revenues grow slower than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, we may not ever achieve profitability and the value of your investment could decline significantly. These factors create a substantial doubt about our ability to continue as a going concern and our auditors have included a going concern qualification in their report on our audited financial statements.

If we are unable to obtain additional capital, we may be unable to proceed with our long-term business plan, and we may be forced to curtail or cease our operations.

The revenues we earn are not adequate to either sustain or expand our operations. During the year ended December 31, 2016, we earned \$589,000 in revenues, but our cost of sales and total expenses totaled \$9,529,447 resulting in a net operating loss of \$8,940,447. We require additional working capital to support our business plan, which includes identifying suitable targets for horizontal or vertical mergers or acquisitions, to enhance the overall productivity and benefit from economies of scale. We expect to pursue acquisitions of, or investments in, businesses and assets in new markets that complement or expand our existing business. Our working capital requirements and the cash flow provided by future operating activities, if any, will vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our channel partners. We may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities. In addition, we may grant registration rights to investors purchasing our equity or debt securities in the future. If we are unable to raise additional financing, we may be unable to implement our long-term business plan, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

If we cannot keep pace with rapid developments, changes and consolidation occurring in our industry and provide new services to our clients, the use of our services could decline, reducing our revenues.

The electronic payments market in which we operate is characterized by rapid technological change, new product and service introductions, including ecommerce services, mobile payment applications, and prepaid services, evolving industry standards, changing customer and consumer needs, the entrance of non-traditional competitors and periods of increased consolidation. To remain competitive in this rapidly evolving market, we are continually involved in several projects to develop new and innovative services. These projects carry risks, such as cost overruns, delays in delivery, performance problems and lack of market acceptance of new or innovative services. Any delay in the delivery of new services or the failure to differentiate our services or to accurately predict and address market demand could render our services less desirable, or even obsolete, to our clients. In addition, the new or innovated services we develop are designed to process very complex transactions and provide information on those transactions, all at very high volumes and processing speeds. Any failure to deliver reliable, effective and secure services that meet the expectations of our clients could result in increased costs and/or a loss in business and revenues that could reduce our earnings. If we are unable to develop, adapt to or access technological changes or evolving industry standards on a timely and cost effective basis, our business, financial condition and results of operations would be materially adversely affected.

The payment processing industry is highly competitive, and we compete with certain firms that are larger and that have greater financial resources. Such competition could adversely affect the transaction and other fees we receive from merchants, and thus, our margins, business, financial condition and results of operations.

Our competitors are well-established payment processing companies, Independent Sales Organizations (“ISO”), MSPs, and other third party suppliers who include payment processing in their solution. Many of our competitors also have substantially greater financial, technological and marketing resources than we have. In addition, our competitors are affiliated with the same acquiring banks and processing services. Accordingly, these competitors may be able to offer more attractive fees to our current and prospective clients or other services that we do not provide. Competition could result in a loss of existing clients, and greater difficulty attracting new clients. Furthermore, if competition causes us to reduce the fees we charge in order to attract or retain clients, there is no assurance we can successfully control our costs in order to maintain our profit margins. One or more of these factors could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to continue to expand our share of the existing payment processing markets or expand into new markets which would inhibit our ability to grow and increase our profitability.

Our future growth and profitability depend upon the growth of the markets in which we currently operate and our ability to increase our penetration and service offerings within these markets, as well as the emergence of new markets for our services and our ability to penetrate these new markets. It is difficult to attract new clients because of cost, and operational impact associated with switching payment processing vendors. We seek to overcome these factors by making investments to enhance the functionality of our software and differentiate our services. However, there can be no assurance that our efforts will be successful, and this resistance may adversely affect our growth.

Our expansion into new markets is also dependent upon our ability to adapt our existing technology and offerings or to develop new or innovative applications to meet the particular service needs of each new market. To do so, we will need to anticipate and react to market changes and devote appropriate financial and technical resources to our development efforts, and there can be no assurance that we will be successful in these efforts. Furthermore, in response to market developments, we may expand into new geographical markets in which we do not currently have any operating experience. We cannot assure you that we will be able to successfully expand in such markets due to our lack of experience and the multitude of risks associated with new operations.

Unauthorized disclosure of data, whether through cybersecurity breaches, computer viruses or otherwise, could expose us to liability, protracted and costly litigation and damage our reputation.

We have responsibility for compliance under Visa, MasterCard and other payment network rules and regulations.

We and certain of our associated participants process, sometimes store and/or transmit sensitive cardholder data, such as names, addresses, social security numbers, credit or debit card numbers, driver's license numbers and bank account numbers, and we have ultimate liability to the payment networks and member financial institutions that register us with Visa, MasterCard and other payment networks for our failure or the failure of our associated participants to protect this data in accordance with payment network requirements. The loss of merchant or cardholder data by us or our associated participants could result in significant fines and sanctions by the payment networks or governmental bodies. A significant cybersecurity breach could also result in payment networks prohibiting us from processing transactions on their networks or the loss of our financial institution sponsorship that facilitates our participation in the payment networks, which would have a material adverse effect on our business, financial condition and results of operations. These concerns about security are increased when we transmit information over the Internet. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and are often difficult to detect. We subject to the threat of breaches of security by hackers. In such circumstances, our encryption of data and other protective measures may not prevent unauthorized access service disruption or system sabotage. Although we have not incurred losses or liabilities because of security breach attempts, we have experienced attempts to breach our system. Such an event could be material and harm our reputation, deter clients and potential clients from using our services, increase our operating expenses, expose us to uninsured losses or other liabilities, increase our risk of regulatory scrutiny, subject us to lawsuits, result in material penalties and fines under state and federal laws or by the payment networks, and adversely affect our continued payment network registration and financial institution sponsorship.

Our systems and our third-party providers' systems may fail due to factors beyond our control, which could interrupt our service, cause us to lose business and increase our costs.

We depend on the efficient and uninterrupted operation of numerous systems, including our computer systems, software, data centers and telecommunications networks, as well as the systems of third parties, to provide services to our clients. Our systems and operations and those of our third-party providers, could be exposed to damage or interruption from, among other things, fire, natural disaster, power loss, telecommunications failure, unauthorized entry, security breach, computer viruses, defects and development delays. Defects in our systems or those of third parties, errors or delays in the processing of payment transactions, telecommunications failures or other difficulties could result in loss of revenues and clients, reputational harm, additional operating expenses to remediate the failures, fines imposed by payment networks and exposure to other losses or other liabilities.

Any acquisitions, partnerships or joint ventures that we make could disrupt our business and harm our financial condition.

Acquisitions, partnerships and joint ventures are part of our growth strategy. We evaluate, and expect in the future to evaluate potential strategic acquisitions and/or partnerships with complementary businesses, services, or technologies. However, we may not be able to successfully integrate any businesses, services or technologies that we acquire or with which we form a partnership or joint venture, or comply with applicable regulatory requirements. Furthermore, the integration of any acquisition may divert management's time and resources from our core business and disrupt our operations. Certain partnerships and joint ventures we make may also prevent us from competing for certain clients or in certain lines of business. To the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves, and to the extent the purchase price is paid with our stock, it could be dilutive to our stockholders.

Changes in payment network rules or standards could adversely affect our business, financial condition and results of operations.

Payment network rules are established and updated semi-annually by each payment network as they may determine in their sole discretion and with or without advance notice to their participants. The ability of the Payment networks to modify and enhance their rules in their sole discretion may create a disadvantage to our ability to competitively sell or deploy our payment solutions. Any changes in payment network rules or standards or the way they are implemented could increase our cost of doing business or limit our ability to provide transaction processing services to or through our clients and have a material adverse effect on our business, financial condition and results of operations.

If we fail to comply with the applicable requirements of the Visa, MasterCard or other payment networks, those payment networks could seek to fine us, suspend us or terminate our registrations through our financial institution sponsors. These actions could have a material adverse effect on our business, financial condition or results of operations, and if these registrations are terminated, we may not be able to conduct our business.

To provide our transaction processing services, we are registered through our bank sponsorships with Visa, MasterCard, and other payment networks as MSPs. We and our clients are subject to payment network rules. If we or our associated participants do not comply with the payment network requirements, the payment networks could seek to fine us, suspend us or terminate our registrations. The termination of our registration, or any changes in the payment network rules that would impair our registration could require us to stop providing payment network services to the Visa, MasterCard or other payment networks, which would have a material adverse effect on our business, financial condition and results of operations.

If our agreements with financial institution sponsors and clearing service providers to process electronic payment transactions are terminated or otherwise expire and we are unable to renew existing or secure new sponsors or clearing service providers, we will not be able to conduct our business.

The Visa, MasterCard and other payment network rules such as National Automated Clearinghouse (“NACHA”) require us to be sponsored by a member bank to process electronic payment transactions. Because we are not a bank, we are unable to directly access these payment networks. We are currently registered with the Visa, MasterCard and other payment networks through Citizens Bank N.A., and Florida Capital Bank for ACH. Our agreements give our sponsoring banks substantial discretion in approving certain aspects of our business practices, including our solicitation, application and qualification procedures for merchants and the terms of our agreements with merchants. Our financial institution sponsors’ discretionary actions under these agreements could have a material adverse effect on our business, financial condition and results of operations. We also rely on our network partner Worldpay, and various other processors to provide clearing and settlement services for our merchant customers. Without these sponsorships or clearing services agreements, we would not be able to process Visa, MasterCard and other payment network transactions and our Merchant would not be able to submit transactions for settlement which would have a material adverse effect on our business, financial condition and results of operations.

Increased merchant, financial institution or referral partner attrition and decreased transaction volume could cause our revenues to decline.

We experience attrition and declines in merchant credit, debit or prepaid card processing volume resulting from several factors, including business closures, consolidations, loss of accounts to competitors, account closures that we initiate due to heightened credit risks, and reductions in our merchants' sales volumes. Our referral partners, many of which are not exclusive, such as ISVs, VARs, ISOs and trade associations are contributors to our revenue growth. If a referral partner switches to another transaction processor, shuts down or becomes insolvent, we will no longer receive new merchant referrals from the referral partner, and we risk losing existing merchants that were originally enrolled by the referral partner. We cannot predict the level of attrition and decreased transaction volume in the future and our revenues could decline because of higher than expected attrition, which could have a material adverse effect on our business, financial condition and results of operations.

A decline in the use of credit, debit or prepaid cards as a payment mechanism for consumers or adverse developments with respect to the payment processing industry in general could have a materially adverse effect on our business, financial condition and results of operations.

If consumers do not continue to use credit, debit or prepaid cards as a payment mechanism for their transactions or if there is a change in the mix of payments between cash, alternative currencies and technologies, credit, debit and prepaid cards, or the corresponding methodologies used for each, which is averse to us, it could have a materially adverse effect on our business, financial condition and results of operations. Moreover, if there is an adverse development in the payments industry in general, such as new legislation or regulation that makes it more difficult for our clients to do business, our business, financial condition and results of operations may be adversely affected.

The consumer traffic to our websites and mobile applications may decline and our business may suffer if other companies copy information from our platform and publish or aggregate it with other information for their own benefit.

We provide advertising content on our merchant services platform. Other companies provide similar information and may redistribute that content. Information or content from our platform, through website scraping, robots or other means, may be taken and published or aggregated with other information for the benefit of a third party or competitor. When third parties copy, publish or aggregate content from our platform, it makes them more competitive, and decreases the likelihood that consumers will visit our websites or use our mobile applications to search and discover the information they seek, which could negatively affect our business, results of operations and financial condition. We may not be able to detect such third-party conduct in a timely manner or at all and, even if we can identify these situations, we may not be able to prevent them and have not always been able to prevent them in the past. In some cases, particularly in the case of websites operating outside of the U.S., our available remedies may be inadequate to protect us against such practices. In addition, we may be required to expend significant financial or other resources to successfully enforce our rights.

Governmental regulations designed to protect or limit access to consumer information could adversely affect our ability to effectively provide our services to merchants.

Governmental bodies in the United States and abroad have adopted, or are considering the adoption of, laws and regulations restricting the transfer of, and requiring safeguarding of, non-public personal information. For example, in the United States, all financial institutions must undertake certain steps to ensure the privacy and security of consumer financial information. Although we have limited our use of consumer information solely to providing services to other businesses and financial institutions, we are required by regulations and contracts with our merchants and financial institution clients to provide assurances regarding the confidentiality and security of non-public consumer information. Our ability to maintain compliance with these standards and satisfy these audits will affect our ability to attract and maintain business in the future. If we fail to comply with these regulations or requirements, we could be exposed to suits for breach of contract or to governmental proceedings. In addition, our client relationships and reputation could be harmed, and we could be inhibited in our ability to obtain new clients. If more restrictive privacy laws or rules are adopted by authorities in the future on the federal or state level, our compliance costs may increase, our opportunities for growth may be curtailed by our compliance capabilities or reputational harm and our potential liability for security breaches may increase, all of which could have a material adverse effect on our business, financial condition and results of operations.

Regulatory, legislative or self-regulatory developments regarding Internet privacy matters could adversely affect our ability to conduct our business.

Consumer and industry groups have expressed concerns about online data collection and use by companies, which has resulted in the release of various industry self-regulatory codes of conduct and best practice guidelines that are binding for member companies and that govern, among other things, the ways in which companies can collect, use and disclose user information, how companies must give notice of these practices and what choices companies must provide to consumers regarding these practices. We are obligated in certain cases to comply with best practices or codes of conduct addressing matters, such as the online tracking of users or devices.

U.S. regulatory agencies have also placed an increased focus on online privacy matters and, in particular, on online advertising activities that utilize cookies, which are small files of non-personalized information placed on an Internet user's computer, and other online tracking methods. On March 26, 2012, the Federal Trade Commission ("FTC") issued a report on consumer privacy intended to articulate best practices for companies collecting and using consumer data. The report recommends companies adopt several practices that could have an impact on our business, including giving consumers notice and offering them choices about being tracked across other parties' websites and implementing a persistent "Do Not Track" mechanism to enable consumers to choose whether to allow tracking of their online search and browsing activities, including on mobile devices. Various industry participants have worked to develop and finalize standards relating to a Do Not Track mechanism, and such standards may be implemented and adopted by industry participants at any time. We may be required or otherwise choose to adopt Do Not Track mechanisms, in which case our ability to use our existing tracking technologies and permit their use by performance marketing networks and other third parties could be impaired. This could cause our net revenues to decline and adversely affect our operating results.

U.S. and foreign governments have enacted, considered or are considering legislation or regulations that could significantly restrict industry participants' ability to collect, augment, analyze, use and share anonymous data, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools. Several bills have been proposed in the U.S. Congress in the past that contained provisions that would have regulated how companies can use cookies and other tracking technologies to collect and use information about consumers. Some of those bills also contained provisions that would have specifically regulated the collection and use of information, particularly geolocation information, from mobile devices. Failure to comply may harm our business and our operating results could be adversely affected.

Changes in consumer sentiment or laws, rules or regulations regarding the use of cookies and other tracking technologies, advertising blocking software and other privacy matters could have a material adverse effect on our ability to generate net revenues and could adversely affect our ability to collect proprietary data on consumer shopping behavior.

Customers of Catalyst Merchant Services may become increasingly resistant to the collection, use and sharing of information online, including information used to deliver advertising and to attribute credit to publishers such as us in performance marketing programs, and take steps to prevent such collection, use and sharing of information. For example, consumer complaints and/or lawsuits regarding online advertising or the use of cookies or other tracking technologies in general and our practices specifically could adversely impact our business.

Consumers can currently opt out of the placement or use of most cookies for online advertising purposes by either deleting or disabling cookies on their browsers, visiting websites that allow consumers to place an opt-out cookie on their browsers, which instructs participating entities not to use certain data about consumers' online activity for the delivery of targeted advertising, or by downloading browser plug-ins and other tools that can be set to: identify cookies and other tracking technologies used on websites; prevent websites from placing third-party cookies and other tracking technologies on the user's browser; or block the delivery of online advertisements on websites and applications.

We are dependent on performance marketing networks or in some instances, retailers, to place cookies on browsers of users that visit our websites or to use other tracking mechanisms to allow retailer sales through our marketplace to be attributed to us, and if we are restricted from allowing these or if they do not function in a manner that allows retailer sales through our marketplace to be attributed to us, our ability to generate net revenues would be significantly impaired.

We may not be able to successfully manage our intellectual property and may be subject to infringement claims.

Third parties may challenge, invalidate, circumvent, infringe or misappropriate our intellectual property, or such intellectual property may not provide us any competitive advantages, which could result in costly redesign efforts, discontinuance of certain service offerings or other competitive harm. Our competitors could also independently develop similar technology, duplicate our services or design around our intellectual property. We may be forced to litigate to enforce or determine the scope and enforceability of our intellectual property rights, trade secrets and know-how, which is expensive, could cause a diversion of resources and may not prove successful. Also, we may not be able to obtain or continue to obtain licenses and technologies from third parties on reasonable terms or at all. The loss of intellectual property protection or the inability to obtain third party intellectual property could harm our business and ability to compete. We may also be subject to costly litigation in the event our services and technology infringe upon or otherwise violate a third party's proprietary rights, or if a third party claims we have breached their copyright, trademark, license usage or other intellectual property rights. Any claim from third parties may result in a limitation on our ability to use the intellectual property subject to these claims. Additionally, we could be required to defend against individuals and groups who have been purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from companies like ours. Claims of intellectual property infringement also might require us to pay costly settlement or damage awards, or prevent us from marketing or selling certain of our services. If we cannot redesign affected services or license the infringed technology on reasonable terms or substitute similar technology from another source, our revenue and earnings could be adversely impacted. Finally, we could be subject to suits by parties claiming ownership of what we believe to be open source software, which we use in connection with our technology and services.

Despite our efforts to prevent it from occurring, we could be required by some of our open source software licenses to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our proprietary source code could be harmful to our business, financial condition and results of operations.

If we lose key personnel or are unable to attract, recruit, retain and develop qualified employees, our business, financial condition and results of operations may be adversely affected.

We are dependent upon the ability and experience of a number of our key personnel who have substantial experience with our operations. The loss of the services of one or a combination of our senior executives or key managers could have a material adverse effect on our business, financial condition and results of operations. Additionally, for us to successfully compete and grow, we must attract, recruit, retain and develop the necessary personnel who can provide the needed expertise across the entire spectrum of our intellectual capital needs. Failure to retain or attract key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our operating results are subject to seasonality, which could result in fluctuations in our quarterly net income.

We have experienced in the past, and expect to continue to experience, seasonal fluctuations in our revenues because of consumer spending patterns. Historically revenues in the payments industry are strongest in fourth quarter, and weakest in first quarter. This is due to the increase in the number and amount of electronic payment transactions related to seasonal retail events.

We may need to raise additional funds to finance our future capital needs, which may prevent us from growing our business.

We may need to raise additional funds to finance our future capital needs, including developing new services and technologies, and to fund ongoing operating expenses. If we raise additional funds through the sale of equity securities, these transactions may dilute the value of our outstanding common stock. We may also decide to issue securities, including debt securities that have rights, preferences and privileges senior to our common stock. Any debt financing would increase our already high level of indebtedness and could negatively affect our liquidity and restrict our operations. We may be unable to raise additional funds on terms favorable to us or at all. If financing is not available or is not available on acceptable terms, we may be unable to fund our future needs. This may prevent us from increasing our market share, capitalizing on new business opportunities or remaining competitive in our industry.

Failure to maintain effective systems of internal control over financial reporting and disclosure controls and procedures could adversely affect the trading price of our common stock.

Effective internal control over financial reporting is necessary for us to provide accurate financial information. If we are unable to adequately maintain effective internal control over financial reporting, we may not be able to accurately report our financial results, which could cause investors to lose confidence in our reported financial information and negatively affect the trading price of our common stock. Furthermore, we cannot be certain that our internal control over financial reporting and disclosure controls and procedures will prevent all possible error and fraud. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of error or fraud, if any, in our 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 simple error or mistake, which could have an adverse impact on our business.

We initiated legal proceedings against William Clark and other former employees of the Company and we believe that extended litigation proceedings would be time-consuming and costly, which may adversely affect our financial condition and our ability to operate our business.

On August 4, 2016, the Company filed a complaint in the District of Arizona (the “Complaint”) against William Clark, Justin Clark and Sean Tate as individuals, and Phasive, Inc., an Arizona corporation (collectively, the “Defendants”), containing 42 Claims for Relief for, among other claims, breach of contract, breach of fiduciary duty, unfair competition, misappropriation of trade secrets, and tortious interference.

There is a risk that we may be unable to achieve the results we desire from such litigation, and we anticipate that these legal proceedings may continue for several years and may require significant expenditures for legal fees and other expenses, which would require us to devote our limited financial, managerial and other resources to support litigation that may be disproportionate to the anticipated recovery.

Risks Related to Ownership of Our Common Stock

Our stock price is highly volatile.

The trading price of our common stock has been, and is likely to continue to be, highly volatile. Shares of our common stock have traded in the range of \$0.20 on January 7, 2016 to a low of \$0.08 on December 30, 2016. The trading price of our stock has been and is likely to continue to be subject to wide fluctuations in response to various factors, including the risk factors described in this section and elsewhere in this Annual Report on Form 10-K, and other factors beyond our control. Factors affecting the trading price of our common stock include:

- variations in our actual or projected operating results or the operating results of similar companies;
- announcements of technological innovations, new services or service enhancements and strategic alliances or agreements by us or by our competitors;
- marketing and advertising initiatives by us or our competitors;
- the gain or loss of customer relationships;
- threatened or actual litigation;
- recruitment or departure of key personnel;
- market conditions in our industry, the industries of our customers and the economy;
- volatility in our stock price, which may lead to higher stock-based compensation expense under applicable accounting standards;
- reaction to our press releases or other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- raising additional capital from any equity or debt financing in the future; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business

Our common stock has been listed on the OTCQB and the OTC Bulletin Board since September 17, 2013 under the symbol “SPDL” Beginning on September 17, 2016, our common shares were quoted on the OTC Pink marketplace due to a failure to timely pay certain exchange fees. Effective March 21, 2017, our common stock again became listed on the OTCQB.

In addition, the stock market in general and the market for companies in our particular segment, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may harm the market price of our common stock regardless of our actual operating performance. Each of these factors, among others, could adversely affect your investment in our common stock.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

As of April 7, 2017, we had 75,925,199 shares of common stock outstanding. Shares beneficially owned by our affiliates and employees are subject to volume and other restrictions under Rules 144 under the Securities Act of 1933.

Trading on the OTCQB and OTC Bulletin Board may be volatile and sporadic, which could depress the market price of our common shares and make it difficult for our stockholders to resell their shares.

Trading in shares quoted on the OTCQB and OTC Bulletin Board is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. This volatility could depress the market price of shares of our common stock for reasons unrelated to operating performance. Moreover, the OTCQB and OTC Bulletin Board are not stock exchanges, and trading of securities on the OTCQB and OTC Bulletin Board are often more sporadic than the trading of securities listed on a quotation system like NASDAQ or a stock exchange like NYSE MKT. Accordingly, stockholders may have difficulty reselling shares of our common stock.

Our stock is a penny stock; trading of shares of our common stock may be restricted by the SEC's penny stock regulations, which may limit a stockholder's ability to buy and sell our shares.

Our stock is a penny stock. The SEC has adopted Rule 15c-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the shares that are subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common shares.

FINRA sales practice requirements may also limit a stockholder's ability to buy and sell shares of our common stock.

In addition to the "penny stock" rules promulgated by the SEC, the Financial Industry Regulatory Authority ("FINRA") has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some brokerage customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy shares of our common stock, which may limit your ability to buy and sell shares of our common stock.

Our responsibilities as a public company may cause us to incur significant costs, divert management's attention and affect our ability to attract and retain qualified board members and executives.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act, including the requirements of Section 404, as well as rules and regulations subsequently implemented by the SEC, the Public Company Accounting Oversight Board. Compliance with these public company requirements has made some activities more time-consuming.

It has also increased our legal and financial compliance costs and demand on our systems and resources. For example, we have created new board committees and adopted new internal controls and disclosure controls and procedures. In addition, we have incurred and will continue to incur incremental expenses associated with our SEC reporting requirements. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our auditors identify a material weakness or significant deficiency in our internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us. Advocacy efforts by stockholders and third parties may also prompt additional changes in governance and reporting requirements, which could further increase our costs. It also may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers.

In addition, changing laws, regulations and standards relating to public disclosure and corporate governance are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, and, thus, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to our disclosures and to our governance practices. We have invested, and intend to continue to invest, resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention away from activities that generate revenue and help grow our business.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. If we are not able to maintain or document proper and effective internal controls over financial reporting, or encounter difficulties in their implementation, it may cause us to be unable to report our financial information on an accurate and timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences. Furthermore, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting. Any such failure could harm our operating results, harm our ability to operate our business, and reduce the trading price of our stock.

As a result of its internal control assessment, the Company determined there is a material weakness with respect to the financial reporting and closing process from lack of segregation of duties and evidence of control review.

The Company determined that there is a material weakness in its internal controls with respect to the financial reporting and closing process, resulting from a lack of segregation of duties and evidence of control review. Since the Company has a limited number of employees, most of whom have no involvement in our financial controls and reporting, we are unable to sufficiently distribute reporting and accounting to tasks across enough individuals to ensure that the Company does not have a material weakness in its financial reporting system.

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. Any payment of future dividends will be at the discretion of our board of directors, subject to compliance with certain covenants contained in our credit facility, which limit our ability to pay dividends, and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors may deem relevant. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you sell your shares at a profit.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Our corporate office is located at 1201 S. Alma School Rd., Suite 12500, Mesa, Arizona 85210. Our corporate headquarters occupy approximately 2,800 square feet of leased office space for which we pay a rate of \$4,727 per month. The lease term is 38 months with an expiration date of April 30, 2020.

Management does not currently have policies regarding the acquisition or sale of real estate assets primarily for possible capital gain or primarily for income. The Company does not presently hold any investments or interests in real estate, investments in real estate mortgages or securities of or interests in persons primarily engaged in real estate activities.

Item 3. Legal Proceedings.

On May 26, 2015, the Company entered into a loyalty agreement with Help Worldwide, Inc. (“HWW”) which provided that the Company would join the HWW network and become a licensed Loyalty Program Operator (“LPO”) to enable delivery of a Yowza!! Points program for consumers and merchants in the Yowza!! program. HWW was also to build a Yowza!! branded Rewards Mall for the redemption of Yowza!! Points. On March 28, 2016, a settlement agreement was signed between the Company and HWW, terminating the LPO license agreement executed in May 2015. Per the settlement agreement HWW returned 6,500,000 of the 7,000,000 shares of Spindle restricted common stock issued to HWW for the license fee. The LPO license agreement was terminated amicably and not due to default or breach by any party.

On August 4, 2016, the Company filed a complaint in the District of Arizona (the “Complaint”) against William Clark, Justin Clark and Sean Tate as individuals, and Phasive, Inc., an Arizona corporation (collectively, the “Defendants”), containing 42 Claims for Relief for, among other claims, breach of contract, breach of fiduciary duty, unfair competition, misappropriation of trade secrets, and tortious interference. The Defendants have filed a counter-claim against the Company for breach of contract, tortious interference and other claims. There is a risk that we may be unable to achieve the results we desire from such litigation, and we anticipate that these legal proceedings may continue for several years and may require significant expenditures for legal fees and other expenses, which would require us to devote our limited financial, managerial and other resources to support litigation that may be disproportionate to the anticipated recovery.

There are no other material pending legal proceedings, to which the Company or any director, officer or affiliate of the registrant, any owner of record or beneficially of more than five percent of any class of voting securities of the Company, or any associate of any such director, officer, affiliate of the registrant, or security holder is a party or any of its subsidiaries is a party or of which any of their property is the subject.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market information

Our common stock, \$0.001 par value per share, is quoted on the OTCQB marketplace operated by OTC Markets Group, Inc. under the symbol "SPDL". Our stock is thinly traded, and there is currently no active market in the trading of our stock. The high and low sales prices of our common stock for the periods indicated follow.

| Quarter Ended | High | | Low | |
|----------------------|-------------|------|------------|------|
| March 31, 2015 | \$ | 0.74 | \$ | 0.30 |
| June 30, 2015 | \$ | 0.39 | \$ | 0.13 |
| September 30, 2015 | \$ | 0.49 | \$ | 0.14 |
| December 31, 2015 | \$ | 0.27 | \$ | 0.13 |
| March 31, 2016 | \$ | 0.20 | \$ | 0.14 |
| June 30, 2016 | \$ | 0.30 | \$ | 0.13 |
| September 30, 2016 | \$ | 0.20 | \$ | 0.14 |
| December 31, 2016 | \$ | 0.20 | \$ | 0.08 |

Dividend Policy

Historically, we have not declared or paid cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of the Board of Directors and will be dependent upon then existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, business prospects and other factors that the Board of Directors considers relevant.

Holdings

On April 8, 2017, Spindle, Inc. has 75,925,199 shares of \$0.001 par value common stock issued and outstanding, held by approximately 318 holders of record. The transfer agent for our common stock is Manhattan Transfer Registrar Company, Inc., 531 Cardens Court, Erie, CO 80516. (www.mtrco.com)

Securities Authorized for Issuance under Equity Compensation Plans

On October 29, 2012, our stockholders approved the 2012 Stock Incentive Plan (the "Plan") that governs equity awards to our management, employees and directors and consultants. On November 7, 2013, our stockholders approved an amendment to the Plan which increased the total authorized amount of common stock issuable under the Plan from 3,000,000 to 6,000,000 shares. There are 6,000,000 shares of common stock currently reserved for issuance under the Plan. As of December 31, 2016, options to purchase up to 1,547,500 shares of common stock have been granted of which 1,331,666 are vested.

Unless previously terminated, the Plan will terminate 10 years after the earlier of (i) the date the Plan was adopted by the Board of Directors, or (ii) the date the Plan was approved by the stockholders. The types of awards permitted under the Plan include qualified incentive stock options (ISOs), non-qualified stock options, and restricted stock. Each option will be exercisable at such times and subject to such terms and conditions as the Board of Directors may specify. Stock options generally vest over three years and expire no later than ten years from the date of grant.

On June 4, 2014, our Board of Directors approved the 2014 Consultants' Compensation Plan ("Consultant's Plan") that governs equity awards to compensate certain consultants and advisors of the Company, including but not limited to attorneys for services rendered to the Company. Of the original 4,000,000 shares of common stock authorized, there are currently 2,044,270 shares currently reserved for issuance under the Consultant's Plan. As of December 31, 2016, 1,955,730 shares of common stock have been issued.

The following table provides information about shares of our common stock that may be issued upon the exercise of options and warrants under all our existing equity compensation plans as of December 31, 2016.

| Plan Category | Number of shares of common stock to be issued upon exercise of outstanding options | Weighted-average exercise prices of outstanding options (\$) | Number of shares of common stock remaining available for future issuance under equity compensation plans |
|--|--|--|--|
| Equity compensation plans approved by stockholders | 1,547,500 | \$ 0.357 | 4,452,500 |
| Equity compensation plans not approved by stockholders (1) | - | - | 2,044,270 |
| Total | 1,547,500 | \$ 0.357 | 6,496,770 |

(1) During 2016 and 2015 we issued 252,772 and 1,100,000 shares of common stock, respectively, to legal firms pursuant to the Company's 2014 Consultants' Compensation Plan.

Recent Sales of Unregistered Securities and Use of Proceeds

During the year ended December 31, 2016, the Company:

- issued 798,436 shares of common stock with a value of \$122,428 to consultants as payment of legal fees. 233,000 of these shares were unissued as of December 31, 2016.
- issued 9,504,449 shares of common stock for cash proceeds totaling \$1,283,107.
- authorized 2,488,993 shares of common stock with a value of \$422,472 to members of our Board of Directors, consultants and members of our advisory board as compensation for their services. 17,000 of these shares were unissued as of December 31, 2016. Of the total 2,488,993 shares, 592,593 shares of common stock with a value of \$152,500 were issued to our former Chief Executive Officer as compensation for services and as part of his transition agreement.
- authorized and issued 458,337 shares of common stock with a value of \$93,959 to consultants for prepaid consulting services.

The Company relied on Section 4(a)(2) of the Securities Act of 1933 for issuing the above securities, since the offers and sales were made solely to accredited investors and there was no form of general solicitation or general advertising relating to the offer.

Item 6. Selected Financial Data.

The registrant is a smaller reporting company and is not required to provide this information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our results of operations and financial condition for the years ended December 31, 2016 and 2015 should be read in conjunction with our financial statements and the notes to those financial statements that are included in this report. When used in this document, the words "anticipate," "estimate," "expect," "may," "plans," "project," and similar expressions are intended to be among the statements that identify forward-looking statements. Spindle's results may differ significantly from the results discussed in the forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to, those relating to costs, delays and difficulties related to the Company's dependence on its ability to attract and retain skilled managers and other personnel; the uncertainty of the Company's ability to manage and continue its growth and implement its business strategy; its vulnerability to general economic conditions; the accuracy of our accounting procedures and other estimates; the Company's future financial and operating results, cash needs and demand for services; and the Company's ability to maintain its permits and licenses. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those projected.

Overview

Spindle, Inc. is an innovator of merchant and consumer-facing solutions for businesses of all sizes. We were originally incorporated in the State of Nevada on January 8, 2007 as "Coyote Hills Golf, Inc." We were previously an online retailer of golf-related apparel, equipment and supplies, however, we generated minimal revenues from that line of business. With our acquisition of Spindle Mobile, Inc. in December 2011, we became a commerce-centric company with three primary customers: 1) individual consumers (buyers); 2) individual businesses (merchants or sellers); 3) third party resellers, such as advertising and content media companies, and merchant services providers and other resellers. We generate revenue under the Spindle product line through our Catalyst Gateway payment process. We believe that our secure payments process as well as our digital marketing programs will drive consumer transactions with our merchants, creating loyalty and recurring revenues for Spindle.

Spindle has grown its business through acquisitions in the past, and expects to add accretive technologies to expand in the future from time-to-time. However, our main focus will be on deploying strategic initiatives to leverage our own internal marketing and sales capabilities, along with distribution channels, in order to increase merchant conversions to our platform and transactional growth for our merchants' customers.

On December 31, 2012 (the "Parallel Acquisition Closing Date"), pursuant to that certain Asset Purchase Agreement (the "Parallel Agreement") by and between us and Parallel Solutions Inc., a Nevada corporation ("Parallel"), we acquired substantially all of the assets used in connection with Parallel's business of facilitating electronic payment processing services to merchants (the "Parallel Assets"), assumed certain specified liabilities and hired seven Parallel employees in exchange for 538,570 unregistered shares of our common stock, of which 53,857 shares (the "Indemnification Escrow") and 100,000 shares (the "Deferred Consent Escrow") were deposited in escrow with our transfer agent. The Indemnification Escrow was held for a period of one year from the Parallel Acquisition Closing Date and was available to compensate us, pursuant to the indemnification obligations of Parallel under the Parallel Agreement, and for any necessary accounts receivable adjustment after the Parallel Acquisition Closing Date. The Indemnification Escrow has been terminated and the common stock has been released. The terms of the Parallel Agreement provided that the Deferred Consent Escrow would be held for a period of up to five years following the Parallel Acquisition Closing Date and would be released to Parallel or its legally permitted assign(s) incrementally as and when certain specified contract assignments or residual revenue streams were properly assigned to us or the residual revenue streams in respect of such specified contracts were bought out by the applicable third party. As of the date of this report, these conditions have been satisfied and the Deferred Consent Escrow has been terminated and the common stock has been released.

On March 20, 2013 (the "MeNetwork Closing Date"), we assumed certain liabilities and acquired substantially all the assets of MeNetwork, Inc. ("MeNetwork") used in connection with its business of developing, marketing and licensing a mobile marketing platform for use by merchants and consumers (the "MeNetwork Assets"), pursuant to an Asset Purchase Agreement, dated March 1, 2013 (the "MeNetwork Agreement").

As consideration for the assumption of the liabilities and the acquisition of the MeNetwork Assets, we issued an aggregate of 2,750,000 shares of common stock to the stockholders of MeNetwork, of which 350,000 shares were held in escrow for a period of one year from the MeNetwork Closing Date for the purposes of satisfying any indemnification claims. The escrow has been terminated and the shares of common stock have been released. In addition, upon the earlier of 180 days following the MeNetwork Closing Date or a change in control of Spindle, we agreed to issue an additional 750,000 shares of common stock to Ashton Craig Page; the director and Chief Operating Officer of MeNetwork and a former director of Spindle. On October 7, 2013, the 750,000 shares were issued to Mr. Page pursuant to the terms and conditions of the MeNetwork Agreement. On December 12, 2014, the Company, and Ashton Craig Page, in his capacity as the representative of MeNetwork and the MeNetwork Stockholders (the "Representative"), entered into an Amendment and Waiver to Asset Purchase Agreement (the "Amendment"), pursuant to which the Company agreed to issue and the Representative agreed to accept on behalf of MeNetwork and the MeNetwork Stockholders an acceleration of the issuance of up to an aggregate of 1,000,000 Earnout Shares on or before December 31, 2014 in full satisfaction of all obligations of the Company to issue the Earnout Shares pursuant to the Purchase Agreement during the Earnout Period. These shares were issued on December 23, 2014.

On January 3, 2014 (the "Yowza Closing Date"), the Company acquired substantially all of the assets of Yowza International Inc. (renamed Y Dissolution, Inc.) ("Yowza!!") used in connection with its business of providing retail coupons through a mobile application (the "Yowza Assets"), and assumed certain liabilities of Yowza!! in an amount equal to \$15,000 for consideration equal to (1) \$500,000 in cash paid to Yowza!! and certain creditors and holders of outstanding promissory notes issued by Yowza!! and (2) an aggregate of 1,642,000 unregistered shares of our common stock (the "Aggregate Share Consideration"), issuable to the holders of Yowza!!'s outstanding capital stock. Ten percent of the Aggregate Share Consideration was issued to certain executive management members and advisors of Yowza!! in accordance with consulting or employment agreements and subject to certain vesting provisions. In addition, an aggregate of 197,052 shares of common stock (the "Indemnification Escrow"), representing approximately 12% of the Aggregate Share Consideration, was deposited in escrow for a period of one year from the Yowza Closing Date for the purpose of satisfying Yowza!!'s indemnification obligations under the Asset Purchase Agreement, and for any necessary accounts receivable adjustment after the Yowza Closing Date. The Yowza!! Indemnification Escrow was released on January 12, 2015 and the escrow was terminated.

Since the Company determined that the value of Yowza!! was impaired and had a subsequent change in strategy, on March 3, 2017, the Company sold all the assets associated with Yowza!! for \$25,000 to IoT Broadband LLC, an LLC owned by Michael Kelly, a previously reported 5% shareholder of the Company's common stock. The \$25,000 consideration received from the sale of the Yowza!! is less than the carrying value of internal use software, domain name, and goodwill on the balance sheet as of December 31, 2016. Because of the sale on March 3, 2017, the Company has impaired the value of the Yowza!! assets to \$25,000, recording impairment for the remaining amount of carrying value effective December 31, 2016.

On October 23, 2015 (the "Closing Date") the Company completed the acquisition of specific assets of Catalyst Business Development, Inc. ("Catalyst") pursuant to an Asset Purchase Agreement, dated September 14, 2015, by and between the Company and Catalyst in exchange for 300,000 unregistered shares of the Company's common stock issued to the holders of Catalyst stock. The consideration amounted to \$75,000 using a fair value of \$0.25 per share at the Closing Date.

Because our operating expenses exceed our revenues, we have relied primarily on sales of our securities and loans from related parties to fund our operations. We will continue to require substantial funds to support our operations and carry out our business plan. Our working capital requirements and the cash flow provided by future operating activities, if any, will vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our channel partners. We may not be successful in raising additional funds as needed or if, successful we may not be able to raise funds on terms that are favorable to us. We cannot guarantee that we will ever be profitable. Thus, our independent registered accounting firm has expressed doubt about our ability to continue as a going concern.

Our potential revenue streams are relatively new and have only recently begun to contribute materially to our operations. Thus, we are unable to accurately forecast future revenue. Our management is hopeful that as our base of operations continues to grow, we will see a corresponding increase in licensing and transactional revenue.

Results of Operations

Comparison of Year Ended December 31, 2016 to the Year Ended December 31, 2015

Revenues and Cost of Sales

Revenues from ongoing operations are derived from our patented conversion and networked payment processes under the Spindle product line and licensing of our intellectual property. During the year ended December 31, 2016, we generated a total of \$589,000 in revenues and incurred \$69,901 in cost of sales, which produced a gross profit of \$519,099. In the year ended December 31, 2015, we generated \$521,037 in revenues and incurred \$211,941 in cost of sales, which produced a gross profit of \$309,096.

Management also reviewed the profitability of our sub-merchant and reseller relationships, which resulted in the strategic cancellation of contracts that did not generate positive cash flow to the Company. Management believes that the full technology platform has now reached the stage where the Company can begin to aggressively sell its solutions to the market. We expect to see increase in licensing and transactional revenue in future periods by bringing the full platform to market, and in a methodical and strategic manner.

As stated previously, we only recently changed our business direction by exiting the micro-merchant market in favor of traditional brick-and-mortar and ecommerce merchants. Under our MSP sponsorship, our potential revenue streams are relatively new and have only recently begun to contribute materially to our operations. Thus, we are unable to accurately forecast future revenue.

EBITDA

We define Adjusted EBITDA as operating income before depreciation, amortization of intangible assets, stock-based compensation, and special charges. We use Adjusted EBITDA to evaluate the underlying performance of our business, and a summary of Adjusted EBITDA, reconciling U.S. GAAP amounts to Adjusted EBITDA amounts (i.e., items included within Adjusted EBITDA as defined directly above) for the fiscal years ended December 31, 2016 and 2015 follows:

| | For the Years Ended December 31, | | | | | | GAAP Change | | Adjusted EBITDA Change | |
|---|----------------------------------|--------------|-----------------|----------------|--------------|-----------------|----------------|------|------------------------|------|
| | 2016 | | | 2015 | | | \$ | % | \$ | % |
| | GAAP | Adjustments | Adjusted EBITDA | GAAP | Adjustments | Adjusted EBITDA | | | | |
| Revenue | | | | | | | | | | |
| Sales income | \$ 589,000 | \$ - | \$ 589,000 | \$ 521,037 | \$ - | \$ 521,037 | \$ 67,963 | 13% | \$ 67,963 | 13% |
| Cost of sales | 69,901 | - | 69,901 | 211,941 | - | 211,941 | (142,040) | -67% | (142,040) | -67% |
| Gross profit | 658,901 | - | 658,901 | 732,978 | - | 732,978 | (74,077) | -10% | (74,077) | -10% |
| Expenses | | | | | | | | | | |
| Depreciation and amortization | 428,494 | (428,494) | - | 546,785 | (546,785) | - | (118,291) | -22% | - | 0% |
| Promotional and marketing | 19,446 | - | 19,446 | 49,485 | - | 49,485 | (30,039) | -61% | (30,039) | -61% |
| Consulting | 506,146 | (443,108) | 63,038 | 436,529 | (317,720) | 118,809 | 69,617 | 16% | (55,771) | -47% |
| Salaries and wages (including equity compensation) | 1,447,009 | (555,656) | 891,353 | 1,601,751 | (611,830) | 989,921 | (154,742) | -10% | (98,568) | -10% |
| Directors fees | 160,115 | (160,115) | - | 203,900 | (203,900) | - | (43,785) | -21% | - | 0% |
| Professional fees | 455,139 | (38,365) | 416,774 | 374,021 | (250,000) | 124,021 | 81,118 | 22% | 292,753 | # |
| General and administrative | 462,462 | (71,296) | 391,166 | 261,984 | - | 261,984 | 467,596 | # | 396,300 | # |
| Bad debt expense | 267,118 | - | 267,118 | - | - | - | 467,596 | 0% | 396,300 | 0% |
| Impairment charge | 5,713,617 | (5,713,617) | - | 924,933 | (924,933) | - | 4,788,684 | # | - | 0% |
| Total operating expenses | 9,459,546 | (7,410,651) | 2,048,895 | 4,399,388 | (2,855,168) | 1,544,220 | 5,060,158 | # | 504,675 | 33% |
| Net Operating Loss / Adjusted EBITDA | \$ (8,940,447) | \$ 7,410,651 | \$ (1,529,796) | \$ (4,090,292) | \$ 2,855,168 | \$ (1,235,124) | \$ (4,850,155) | # | \$ (294,672) | 24% |

- represents a value greater than 100% change

We have presented Adjusted EBITDA above because we believe it conveys useful information to investors regarding our operating results. We believe it provides an additional way for investors to view our operations, when considered with both our U.S. GAAP results and the reconciliation to net income (loss). By including this information, we can provide investors with a more complete understanding of our business. Specifically, we present Adjusted EBITDA as supplemental disclosure because of the following:

- We believe Adjusted EBITDA is a useful tool for investors to assess the operating performance of our business without the effect of interest, income taxes, and other non-operating expenses as well as depreciation and amortization which are non-cash expenses;

- We believe that it is useful to provide to investors with a standard operating metric used by management to evaluate our operating performance; and
- We believe that the use of Adjusted EBITDA is helpful to compare our results to other companies.

Even though we believe Adjusted EBITDA is useful for investors, it does have limitations as an analytical tool. Thus, we strongly urge investors not to consider this metric in isolation or as a substitute for net income (loss) and the other statement of operations data prepared in accordance with U.S. GAAP. Some of these limitations include the fact that:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not reflect income or other taxes or the cash requirements to make any tax payments; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, thereby potentially limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business or as a measure of performance in compliance with U.S. GAAP. We compensate for these limitations by relying primarily on our U.S. GAAP results and providing Adjusted EBITDA only as supplemental information.

Operating Expenses

In the course of our operations, we incur operating expenses composed largely of general and administrative costs and professional fees. General and administrative expenses are essentially the cost of doing business, and encompass, without limitation, the following: research and development; licenses; taxes; general office expenses, such as postage, supplies and printing; utilities; bank charges; website costs; and other miscellaneous expenditures not otherwise classified. Accounting fees include: auditing by our independent registered public accountants, tax preparation fees for filing Federal and State income tax returns and other accounting-specific consulting services. Professional fees include: transfer agent fees for printing stock certificates; consulting costs for marketing and advertising; general business development; legal fees; and costs related to the preparation and submission of reports and information statements with the SEC.

During the year ended December 31, 2016, operating expenses totaled \$9,459,546. Comparatively, in the year ended December 31, 2015, we incurred \$4,399,388 in operating expenses. Depreciation and amortization was \$428,494 and \$546,785 for the years ended December 31, 2016 and 2015, respectively. General and administrative expenses were \$462,462 in 2016 compared to \$261,984 in 2015. Consulting expenses increased to \$506,146 in 2016 from \$436,529 in 2015.

Salaries, wages, and benefits decreased to \$1,447,009 for the year ended December 31, 2016 from \$1,601,751 for the year ended December 31, 2015. Director fees decreased to \$160,115 for the year ended December 31, 2016 from \$203,900 for the same period in 2015. Promotional and marketing expenses decreased to \$19,446 for the year ended December 31, 2016 from \$49,485 for the same period in 2015 and professional fees increased to \$455,139 for the year ended December 31, 2016 from \$374,021 for the same period in 2015.

Interest Expense

During the twelve months ended December 31, 2016, we recognized interest expense of \$61,119. This compares to \$1,558 in interest expense for the twelve months ended December 31, 2015. The increase in 2016 is mainly related to the recognition of interest expense from the beneficial conversion feature of convertible debt recorded in the second quarter of 2016.

During the twelve months ended December 31, 2016, we recognized interest expense - related parties of \$18,977. This compares to \$55 in interest expense - related parties for the twelve months ended December 31, 2015. The increase in 2016 is primarily related to the recognition of interest expense from the beneficial conversion feature of convertible debt recorded in the second quarter of 2016.

Other Expense

Net gain on the sale of assets in 2015 primarily relates to the PSI residual asset sale. To generate non-dilutive cash to increase operations, the Company chose to sell the PSI assets acquired in December of 2012. The month-to-month cash flow generated by the portfolio was not sufficient to cover expenses thus the sale of the portfolio and the resulting cash infusion was instrumental to sustaining operations. The acquisition was accretive and the portfolio was sold at a profit. The gain on the PSI sale of \$373,124 was offset by the \$103,307 write-off of inventory assets as described more fully in Note 1.

The Company is required to annually test the goodwill balance for impairment by comparing the fair value of the reporting unit to the carrying amount of the reporting unit. The Company estimated the fair value of the goodwill associated with the MeNetwork acquisition and determined that the carrying value of the reported goodwill exceeded the fair value. Thus, the Company recognized a loss on the impairment of goodwill of \$669,993 in the year ended December 31, 2015, and recognized a loss of the remaining \$1,339,984 MeNetwork goodwill in the year ended December 31, 2016.

The Company also estimated the fair value of the goodwill associated with the acquisition of the Yowza!! assets and determined that the carrying value of the reported goodwill exceed the fair value, which due to the Company's change in strategic direction under new management, was zero. We therefore recognized a loss on the impairment of goodwill of \$3,296,228 in the year ended December 31, 2016, related to the Yowza!! transaction.

The Company is required to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the historical cost carrying value may no longer be appropriate. During the year ended December 31, 2016, management reviewed the carrying amount of the assets and determined because of changes in the focus of the Company's current direction, certain costs that had been capitalized to software development would not be used, including those related to the Yowza!! platform, and had value to the Company of approximately \$25,000. Because of this analysis, \$1,077,405 in capitalized software costs were recorded as an impairment loss.

Net Losses

We have experienced net losses in all periods since our inception. Our net loss for the year ended December 31, 2016 was \$9,081,857 compared to a net loss of \$3,859,698 for the year ended December 31, 2015. The increase of the net loss in 2016 is primarily attributable to the recognition of losses on the impairment of goodwill and long-lived assets.

During the twelve months ended December 31, 2015, we incurred a net loss of \$3,859,698, which was mainly attributable to our acquisition and development of Yowza!!, ongoing Payment Card Industry (PCI) certifications and maintenance, extensive internal software development, and deployment of our initial suite of payment products.

We anticipate incurring ongoing operating losses and cannot predict when, if at all, we may expect these losses to plateau or narrow.

Liquidity and Capital Resources

Cash used in operating activities during the year ended December 31, 2016 was \$1,121,000 compared to \$360,530 for the year ended December 31, 2015. The main reason for the increase is due to the increase in consulting and general and administrative expenses.

Cash used in investing activities was \$204,691 during the year ended December 31, 2016. Comparatively, cash generated in investing activities was \$162,949 in the twelve months ended December 31, 2015, mainly related to the sale of fixed assets.

During the year ended December 31, 2016, net cash provided by financing activities totaled \$1,168,107, which consisted of \$1,283,107 received from investors purchasing shares of our common stock and \$25,500 in advances and new notes payable, offset by \$100,000 from the return of subscriptions and \$42,500 in payments on our notes receivable and related party notes receivable.

During the year ended December 31, 2015, net cash provided by financing activities totaled \$189,000, which consisted of \$175,000 received from investors purchasing shares of our common stock and \$20,000 from the release of restricted cash, offset by \$6,000 in payments on our notes receivable.

As of December 31, 2016, we had \$3,642 of cash on hand, none of which is restricted. Our management believes this amount is not sufficient to maintain our operations for at least the next 12 months. We are actively pursuing opportunities to raise additional capital through sales of our equity and/or debt securities for cash. We cannot assure you that any financing can be obtained or, if obtained, that it will be on reasonable terms. As such, our principal accountants have expressed doubt about our ability to continue as a going concern because we have limited operations and have not fully commenced planned principal operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with U. S. GAAP. The preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, recoverability of intangible assets, and contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities, which are not readily apparent from other sources, primarily the valuation of intangible assets and equity-based instruments. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our financial statements.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in conformity with U.S. GAAP. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. Thus, they are subject to an inherent degree of uncertainty. In applying these policies, our management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Please see Note 1 to our financial statements for a more complete description of our significant accounting policies.

Intangible assets

Management periodically reviews property, equipment, intangibles and other long-lived assets for possible impairment. This review occurs annually, or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. Management believes that the accounting estimate related to impairment of its property and equipment, is a “critical accounting estimate” because: (1) it is highly susceptible to change from period to period because it requires management to estimate fair value, which is based on assumptions about cash flows and discount rates; and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet, as well as net income, could be material. Management’s assumptions about cash flows and discount rates require significant judgment because actual revenues and expenses have fluctuated in the past and are expected to continue to do so.

The Company reviews the carrying value of intangible assets for impairment whenever events and circumstances indicate that the carrying value may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to the amount by which the carrying value exceeds the fair value. The factors considered by management in performing this assessment include current operating results, trends and prospects, the way the property is used, and the effects of obsolescence, demand, competition and other economic factors.

Software development costs

The Company accounts for the cost of computer software developed or obtained for use of its application service by capitalizing qualifying costs, which are incurred during the application development stage and amortizing them over the software’s estimated useful life. Costs incurred in the preliminary and post-implementation stages of the Company’s products are expensed as incurred. The amounts capitalized include external direct costs of services used in developing software and for payroll and payroll-related costs of employees directly associated with the development activities. The Company amortizes capitalized software over the expected period of benefit, which is five years, beginning when the software is ready for its intended use.

Revenue recognition

The Company recognizes revenue when all the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the amount of fees to be paid by the customer is fixed or determinable; and (4) the collection of our fees is probable.

Sales related to long-term contracts for services (such as engineering, product development and testing) extending over several years are accounted for under the percentage-of-completion method of accounting. Sales under these contracts are recorded based on the ratio of actual costs incurred to total estimated costs expected to be incurred related to the contract under the cost-to-cost method utilizing budgeted milestones or tasks as designated per each contract. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable.

For all other sales of products or services the Company recognizes revenues based on the terms of the customer agreement. The customer agreement takes the form of either a contract or a customer purchase order and each provides information with respect to the product or service being sold and the sales price. If the customer agreement does not have specific delivery or customer acceptance terms, revenue is recognized at the time of shipment of the product to the customer.

Stock-Based Compensation

The Company records stock based compensation in accordance with the guidance in Accounting Standards Codification (“ASC”) Topic 718 which requires the Company to recognize expense related to the fair value of its employee stock option awards. This eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

The Company accounts for stock-based payments to non-employees in accordance with ASC 505-50, “Equity-Based Payments to Non-Employees”. (“ASC 505-50”) Stock-based payments to non-employees include grants of stock, grants of stock options and issuances of warrants that are recognized in the statement of operations based on the value of the vested portion of the award over the requisite service period as measured at its then-current fair value as of each financial reporting date. The Company calculates the fair value of option grants and warrant issuances utilizing the Black-Scholes pricing model. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time stock options are granted and warrants are issued to employees and non-employees, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinct from “cancellations” or “expirations” and represents only the unvested portion of the surrendered stock option or warrant.

Income Taxes

Deferred tax assets and liabilities are recorded based on the difference between financial reporting and tax bases of assets and liabilities and are measured by the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Deferred tax assets are computed with the presumption that they will be realizable in future periods when taxable income is generated. Predicting the ability to realize these assets in future periods requires a great deal of judgment by management. U.S. generally accepted accounting principles prescribe a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Income tax benefits that meet the “more likely than not” recognition threshold should be recognized.

Reclassifications

Certain reclassifications have been made to the prior years’ financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

Recent Accounting Standards

See Note 1 “*Organization of the Company and Significant Accounting Policies*” to our financial statements included in this report for discussion of recently issued accounting standards.

Off-Balance Sheet Arrangements

As of December 31, 2016, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The registrant is a smaller reporting company and is not required to provide this information.

Item 8. Financial Statements and Supplementary Data.

Our financial statements and supplementary data are included on pages F-1 to F-6 of this report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported, within the periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer), as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, we conducted an evaluation, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures as of December 31, 2016. Due to the Company’s limited resources and number of employees, there is limited segregation of duties which leads to the irregular review of various reconciliation and control procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2016, our disclosure controls and procedures were ineffective because of limited resources and personnel resulting in a lack of segregation of duties.

Internal Controls

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our board of directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation under the criteria established in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was ineffective as of December 31, 2016. Management determined that the material weaknesses that resulted in controls being ineffective are primarily due to lack of resources and number of employees. Material weaknesses exist in the segregation of duties required for effective controls and various control procedures not regularly performed due to the lack of staff and resources.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following table sets for the names and ages of our directors and executive officers:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|----------------------|------------|--|
| Jack A. Scott | 63 | Interim Chief Executive Officer, Chairman of the Nominating Committee and Director |
| John Devlin | 72 | Interim Chief Financial Officer, Treasurer, Chairman of the Audit Committee and Director |
| Francis Knuettel, II | 50 | Chairman of the Board of Directors |
| Glenn Bancroft | 61 | Secretary, Chairman of the Compensation Committee and Director |
| Habib Yunus | 41 | Director |

Terms of Office

Our directors are elected by the stockholders and serve until their successors are elected and qualified, or until he or she resigns or is removed in accordance with our bylaws and the provisions of the Nevada Revised Statutes.

Our officers are appointed by our Board of Directors and serve at the pleasure of the Board or until the officer's resignation.

Background of Executive Officers, Directors, Promoters and Control Persons

Dr. Jack Scott has served as a director since September 1, 2014 and as Chief Executive Officer since January 2017. Dr. Scott has a diverse technical and business background spanning more than 35 years that includes applied research, consulting, sales and sales management, executive positions, and ownership of a group of five recycling and manufacturing businesses, including one joint venture, through a holding company, Canadus Technologies, LLC. Dr. Scott is a founding member of Canadus Technologies, LLC since January 2001. Prior to his experience with Canadus Technologies, LLC, from February 1997 to January 2000, Dr. Scott was President and CEO of Encycle, Inc., a \$300 million recycling subsidiary, owned by Asarco, Inc., with more than 1,000 employees. Prior to Encycle, Inc., Dr. Scott held various senior management positions with several other companies in the recycling and manufacturing industries. Dr. Scott's extensive business experience led us to conclude that he should serve as a director.

John Devlin has served as a director and Chairman of the audit committee since October 31, 2011. From October 31, 2011 until June 19, 2014, he also served as our Secretary and Treasurer, and as our Chief Financial Officer since August 31, 2015. From February 2009 to February 2015, Mr. Devlin served as a Director and Audit Committee Chairman of Hipcricket, Inc. (formerly Augme Technologies, Inc.), a publicly traded company specializing in mobile technology. Mr. Devlin has been in the investment and asset management business for over 33 years. From October 2008 to October 2011, he served as the Managing Director/Financial Consultant of the American Irish Historical Society ("AIHC"), responsible for managing day-to-day operations, administration and financial oversight of the AIHC and its Fifth Avenue Brownstone headquarters. From October 2003 to October 2008, Mr. Devlin was the Vice Chairman of McKim & Company LLC, a venture capital source firm for start-up companies in the \$1 million to \$20 million bracket, where he was responsible for providing strategic planning and direction. From 1986 to 2003, he was with J.P. Morgan Investment Management, where he started as a Fixed Income Trader, was later selected for a Special Overseas Assignment and later became a Senior Relationship Manager. Mr. Devlin was also the Committee Chairman for client portfolio guidelines, compliance and performance review for J.P. Morgan accounts with an asset size over \$200 billion.

Before retiring from J.P. Morgan Investment Management, he held various positions with U.S. Steel Corporation and the Carnegie Pension Fund between 1974 to 1986, where he was involved in directing investment activity of the U.S. Steel & Carnegie Pension Funds with an asset size of over \$7 billion. Mr. Devlin received an MBA from Pace University and completed his undergraduate degree in Finance at Georgetown University. Mr. Devlin's education and his experience in the finance industry led us to believe that he should serve as a director.

Francis Knuettel II has served as a director since October 21, 2015. Mr. Knuettel has a diverse business background spanning close to 20 years as Chief Financial Officer at various public and private technology firms, including work in the electronic payments field. Mr. Knuettel is currently the CFO of NASDAQ listed Marathon Patent Group, Inc. Prior to Marathon, Mr. Knuettel served as Managing Director and CFO of Greyhound IP, which invests capital to cover costs of patent litigation enforcement, and was previously CFO of IP Commerce, a Software as a Service (SaaS) platform connecting electronic payment service providers and payment-enabled software applications. Mr. Knuettel also serves on the board of directors for Colorado Outward Bound School as the Chairman of its Audit Committee. He received an MBA in Finance and Entrepreneurial Management from the Wharton School at the University of Pennsylvania and holds a BA in Economics from Tufts University.

Glenn Bancroft has served as a director since December 6, 2011. Mr. Bancroft is the Chief Executive Officer of Bancroft & Associates, a real estate investment and management firm which Mr. Bancroft founded in 1981. Under Mr. Bancroft's management, Bancroft & Associates has represented over \$250 million in sales, and has directed a portfolio of more than \$500 million in property management. Mr. Bancroft is an entrepreneur and investment professional with more than thirty years of experience in domestic and international real estate. Mr. Bancroft was the former Chief Financial Officer of NetMoney Inc., which was acquired by Spindle Mobile, Inc., and actively provides management consulting to corporations, and successfully runs a large real estate investment firm. His contribution as a director of Spindle Mobile, Inc. led to his appointment to Spindle, Inc.'s board of directors. Mr. Bancroft's skills and experience in his consulting practice with organizational development, and personnel profiling and placement led us to conclude that he should serve as a director.

Habib Yunus has served as a director since February 1, 2017. Mr. Yunus is a Certified Public Accountant and has more than 15 years of experience in accounting, finance and investing. Most recently, Mr. Yunus served as the Chief Financial Officer and Senior Vice President of Nasdaq listed Payment Data Systems, Inc. from March 03, 2015 to December 30, 2016. He successfully led the company's uplisting from the OTC Market to NASDAQ while managing its public reporting requirements including SEC filings, corporate governance and forecasting. Prior to joining Payment Data, he was the Managing Director and Founder of W Energy Advisory LLC since January 2013, focused on advising clients on energy investments, joint venture transactions, project management and market research in North America for Asian investors. Before founding W Energy Advisory, from September 2010 to January 2013, he was the Lead Project Manager for Toyota Tsusho America, Inc., where in 2012 he originated and negotiated a \$602 million joint venture between Toyota Tsusho Corporation (Japan) and Encana Corporation. Prior to his position at Toyota Tsusho America, Inc., he served as the Head of Tax and Special Assistant to the Chief Financial Officer of Shinsei Bank Ltd. in Tokyo, Japan from July 2004 to June 2010. Mr. Yunus holds a B.S. in Accounting and Masters of Accounting (Tax specialization) degrees from the University of Florida.

Family Relationships

There are no family relationships among our directors and executive officers.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has, during the past ten years, been involved in any legal proceedings described in subparagraph (f) of Item 401 of Regulation S-K.

Compensation Committee Interlocks and Insider Participation

None of our directors or executive officers serves as a member of the board of directors or compensation committee of any other entity that has one or more of its executive officers serving as a member of our board of directors.

Material Changes to Procedures by which Stockholders May Recommend Nominees to the Board of Directors

We do not have a policy relating to the procedures by which our stockholders may recommend nominees to our board of directors and that has not changed.

Audit Committee and Audit Committee Financial Expert

Our board of directors has an Audit Committee which has three members, Jack Scott, John Devlin, and Francis Knuettel II. The main functions of the Audit Committee are to oversee our accounting and financial reporting processes, our internal systems of control, independent auditor relationships and the audits of our financial statements. The Board of Directors has determined Mr. Devlin to be an audit committee financial expert.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who beneficially own more than ten percent of a registered class of the Company's equity securities, to file reports of securities ownership and changes in such ownership of our securities with the SEC. Officers, directors, and greater than ten percent shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms that they file.

Based solely upon a review of copies of such forms filed on Forms 3, 4, and 5, and amendments thereto furnished to us, we believe that as of December 31, 2016, our executive officers, directors and greater than 10 percent beneficial owners have complied on a timely basis with all Section 16(a) filing requirements, with the exception of our officers, directors and greater than 10 percent beneficial owners listed in the table below:

| Name | Number of Late Reports | Number of Transactions Not Reported on a Timely Basis |
|-------------|-------------------------------|---|
| John Devlin | 1 | 1 transaction was not reported on a timely basis in connection with the acquisitions of shares of common stock on March 18, 2016. |

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics for our employees, officers, directors, and advisors. This Code of Business Conduct and Ethics (the "Code") presents legal and ethical standards of conduct for directors, officers and employees of Spindle, Inc. This Code is intended to deter wrongdoing and to promote the conduct of all Company business in accordance with high standards of integrity and in compliance with all applicable laws and regulations. The Code was filed as Exhibit 14.1 to a prior annual report on Form 10-K.

Item 11. Executive Compensation

The following summary compensation table indicates all compensation awarded to, earned by or paid to our principal executive officer and each of the other two highest paid executive officers, if any, whose total compensation exceeded \$100,000 during the years ended December 31, 2016 and 2015 (the "named executive officers").

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) ⁽¹⁾ | Option Awards (\$) ⁽¹⁾ | Non- Equity Incentive Plan Compens ation (\$) | Non- qualified Deferred Compens ation Earnings (\$) | All Other Compens ation (\$) | Total (\$) |
|---|------|------------------------|---------------|--|---|---|---|--|---------------|
| Jack Scott Chief Executive Officer | 2016 | - | - | - | - | - | - | - | - |
| John Devlin* Interim Chief Financial Officer | 2016 | - | - | 30,750 ⁽²⁾ | - | - | - | - | 30,750 |
| | 2015 | - | - | 60,750 ⁽²⁾ | - | - | - | - | 60,750 |
| Michael Schwartz* Former President and Chief Executive Officer | 2016 | 60,000 ⁽³⁾ | - | 46,576 ⁽³⁾ | - | - | - | - | 106,576 |
| William Clark* Former President and Chief Executive Officer | 2016 | 87,500 ⁽⁴⁾ | - | 13,000 ⁽⁴⁾ | - | - | - | - | 100,500 |
| | 2015 | 200,000 ⁽⁵⁾ | - | 63,700 ⁽⁵⁾ | - | - | - | - | 263,700 |
| John Hunnicutt* Former Chief Financial Officer | 2016 | 80,167 | - | - | - | - | - | - | 80,167 |

* Mr. Schwartz resigned from his position as Chief Executive Officer in January of 2017 and Mr. Clark resigned from his position as Chief Executive Officer in June of 2016. Mr. Devlin was appointed interim Chief Financial Officer effective August 31, 2015 and continued in that role until June of 2016, when John Hunnicutt was appointed as CFO. Mr. Hunnicutt resigned his position in January of 2017.

- (1) The value of the stock and stock option compensation was computed using the Black-Scholes Option Pricing Model. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time stock options are granted and warrants are issued to employees and non-employees, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock option or warrant. The Company estimates forfeiture rates for all unvested awards when calculating the expense for the period. In estimating the forfeiture rate, the Company monitors both stock option and warrant exercises as well as employee termination patterns. The resulting stock-based compensation expense for both employee and non-employee awards is generally recognized on a straight-line basis over the requisite service period of the award.
- (2) In relation to his role as Interim Chief Financial Officer, Mr. Devlin was awarded 30,000 shares of the Company's common stock per month. 135,000 shares with a value of \$60,750 were accrued at December 31, 2015. These shares were issued to Mr. Devlin in March of 2016. Mr. Devlin's was awarded and issued 180,000 shares with a value of \$30,750 for his service as Interim CFO in 2016.
- (3) Per his consulting agreement in relation to his role as Chief Executive Officer, Mr. Schwartz accrued \$60,000 as salary and 280,500 shares of stock valued at \$46,576. At December 31, 2016, \$30,000 and 127,500 shares were accrued. Mr. Schwartz received the 127,500 shares in January of 2017 and the \$30,000 payment has not yet been made.
- (4) In lieu of \$12,500 of compensation, Mr. Clark was issued 92,593 shares of common stock which had an aggregate grant date fair value of \$12,963.
- (5) In lieu of \$59,373 of compensation, Mr. Clark was issued 439,800 shares of common stock which had an aggregate grant date fair value of \$59,325.

Outstanding Equity Awards at December 31, 2015

The following table presents certain information concerning outstanding equity awards for our named executive officers at December 31, 2016. No options were exercised by our named executive officers during the last three fiscal years.

| Name | Option Awards | | Option exercise price (\$) | Option expiration date |
|-------------|---|---|----------------------------|------------------------|
| | Number of securities underlying unexercised options (#) Exercisable | Number of securities underlying unexercised options (#) Unexercisable | | |
| Jack Scott | 150,000 ⁽¹⁾ | - | 0.13 | Dec. 23, 2025 |
| John Devlin | 300,000 ⁽²⁾ | - | 0.50 | Oct 29, 2022 |
| | 150,000 ⁽³⁾ | 50,000 ⁽³⁾ | 0.50 | Jan. 29, 2024 |
| | 150,000 ⁽¹⁾ | - | 0.13 | Dec. 23, 2025 |

- (1) The vesting of shares subject to this option occurred on the one-year anniversary of the grant, December 23, 2015.
- (2) The vesting of shares subject to this option occurred on the one-year anniversary of the grant, October 31, 2013.
- (3) The shares subject to this option vest annually over a three-year period beginning on January 31, 2014 in increments of 1/3rd per year.

2012 Stock Incentive Plan

On October 29, 2012, our stockholders approved the 2012 Stock Incentive Plan (the "Plan") that governs equity awards to our management, employees, directors and consultants. On November 7, 2013, our stockholders approved an amendment to the Plan which increased the total authorized amount of common stock issuable under the Plan from 3,000,000 to 6,000,000 shares. There are 6,000,000 shares of common stock currently reserved for issuance under the Plan. As of December 31, 2016, 2,990,000 options to purchase common stock were granted under the Plan and 1,331,666 were fully vested.

Unless previously terminated, the Plan will terminate 10 years after the earlier of (i) the date the Plan was adopted by the board of directors, or (ii) the date the Plan was approved by the stockholders. The types of awards permitted under the Plan include qualified incentive stock options (ISO), non-qualified stock options, and restricted stock. Each option shall be exercisable at such times and subject to such terms and conditions as the board of directors may specify. Stock options generally vest over three years and expire no later than ten years from the date of grant.

Compensation of Directors

Each member of our board of directors receives compensation of \$2,500 per month. Our directors are also entitled to receive reimbursement of pre-approved fees and expenses incurred in relation to performing their obligations as directors.

The following table presents information with respect to 2016 director compensation, including employee directors.

| Name | Fees earned or paid in cash (\$) | Stock awards (\$)⁽¹⁾ | Option awards (\$)⁽¹⁾ | Non-equity incentive plan compensation (\$) | Nonqualified deferred compensation earnings (\$) | All other compensation (\$) | Total (\$) |
|---------------------|---|--|---|--|---|------------------------------------|-------------------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| Jack Scott | 30,000 | - | - | - | - | - | 30,000 |
| John Devlin | 30,000 | - | - | - | - | - | 30,000 |
| Francis Knuettel II | 30,000 | 44,800 | - | - | - | - | 74,800 |
| Glenn Bancroft | 30,000 | - | - | - | - | - | 30,000 |
| Brian Bates | 16,250 | - | - | - | - | - | 16,250 |
| Habib Yunus | - | - | - | - | - | - | - |
| Total | 136,250 | 44,800 | - | - | - | - | 181,050 |

- (1) The value of the stock option compensation was computed using the Black-Scholes Option Pricing Model. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time stock options are granted and warrants are issued to employees and non-employees, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinct from “cancellations” or “expirations” and represents only the unvested portion of the surrendered stock option or warrant. The Company estimates forfeiture rates for all unvested awards when calculating the expense for the period. In estimating the forfeiture rate, the Company monitors both stock option and warrant exercises as well as employee termination patterns. The resulting stock-based compensation expense for both employee and non-employee awards is generally recognized on a straight-line basis over the requisite service period of the award.

Employment Agreements

We are not currently a party to any existing agreements or understandings with any of our executive officers with respect to compensation for services rendered to us.

Consulting Agreements

The Company entered into a Consulting Services Agreement with David Ide, effective as of March 1, 2013, until February 28, 2014 (the “Ide Agreement”). Pursuant to the Ide Agreement, Mr. Ide agreed to provide services relating to intellectual property, corporate governance, financial reporting, and mergers and acquisitions activity. Additionally, Mr. Ide agreed to devote approximately forty hours per week in connection with such services. The Company agreed to pay Mr. Ide 250,000 shares in exchange for his services and reimbursement of pre-approved travel expenses. These shares were issued to Mr. Ide on December 19, 2014.

The Company entered into a Consulting Services Agreement with Glenn Bancroft, effective as of May 1, 2013, until April 30, 2014 (the “Bancroft Agreement”). Pursuant to the Bancroft Agreement, Mr. Bancroft agreed to provide services relating to general management, personnel, executive development and coaching, sales team development and organizational behavior assistance. The Company agreed to pay Mr. Bancroft 100,000 shares in exchange for his services and reimbursement of pre-approved travel expenses. These shares were issued to Mr. Bancroft on July 31, 2014. The Bancroft Agreement was renewed for an additional twelve months on April 30, 2014 through April 30, 2015 for compensation of 100,000 shares, which were issued to Mr. Bancroft on June 18, 2015. The consulting agreement with Mr. Bancroft was again renewed for an additional twelve months through April 30, 2016 under the same terms of the original agreement.

The Company entered into a Consulting Services Agreement with Dr. Jack Scott, effective as of July 1, 2015, until June 30, 2016 (the “Scott Agreement”). Pursuant to the Scott Agreement, Dr. Scott agreed to provide services relating to general business development analysis and support along with M&A analysis and support. The Company agreed to pay Dr. Scott 350,000 unregistered shares of Company stock in exchange for his services and reimbursement of pre-approved travel expenses. These shares were issued to Dr. Scott on November 12, 2015.

The Company entered into a Consulting Services Agreement with John Devlin, effective as of August 17, 2015, until August 16, 2016 (the “Devlin Agreement”). Pursuant to the Devlin Agreement, Mr. Devlin agreed to provide services relating to the function as Interim Chief Financial Officer of the Company, providing financial oversight and directing the activities of the Public Auditors. The Company agreed to pay Mr. Devlin 30,000 shares of unregistered shares of Company stock for each month of service as Interim CFO, with a six-month minimum, along with reimbursement of pre-approved travel expenses. On March 16, 2016, the 180,000 shares were issued to Mr. Devlin.

The Company entered into a Consulting Services Agreement with Tony VanBrackle, effective as of November 1, 2015, until October 31, 2016 (the “VanBrackle Agreement”). Pursuant to the VanBrackle Agreement, Mr. VanBrackle agreed to provide general consulting services relating to the development of a retail ISO program and direct sales structure, along with M&A analysis and support. The Company agreed to pay Mr. VanBrackle 500,000 unregistered shares of Company stock in exchange for his services and reimbursement of pre-approved travel expenses. These shares were issued to Mr. VanBrackle on March 8, 2016.

Potential Payments Upon Termination or Change-in-Control

We currently have no employment agreements nor any compensatory plans or arrangements with any of our executive officers that may result from the resignation, retirement or any other termination of any of our executive officers, from a change-in-control, or from a change in any executive officer’s responsibilities following a change-in-control.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Security Ownership of Certain Beneficial Owners and Management

We have only one class of stock outstanding, our common stock. The following table presents certain information as of April 7, 2017, with respect to the beneficial ownership of our common stock for (i) each director and officer, (ii) all our directors and officers as a group, and (iii) each person known to us to own beneficially five percent or more of the outstanding shares of our common stock. As of April 7, 2017, there were 75,925,199 shares of common stock outstanding.

Shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days from April 7, 2017, are considered outstanding and beneficially owned by the person holding the options or warrants for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. To our knowledge, except as indicated in the footnotes to this table or pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to the shares of common stock indicated.

| Name, Title and Address of Beneficial Owner of Shares ⁽¹⁾ | Amount of Beneficial Ownership | Percent of Class ⁽²⁾ |
|---|--------------------------------------|---------------------------------------|
| Jack Scott, Interim Chief Executive Officer and Director | 7,280,186 ⁽³⁾ | 9.6% |
| John Devlin, Interim Chief Financial Officer, Treasurer, Chairman of the Audit Committee and Director | 1,785,778 ⁽⁴⁾ | 2.4% |
| Francis Knuettel II, Chairman of the Board of Directors and Director | 1,075,574 ⁽⁵⁾ | 1.4% |
| Glen Bancroft, Secretary, Chairman of the Compensation Committee and Director | 1,912,779 ⁽⁶⁾ | 2.5% |
| Habib Yunus, Director | 287,143 ⁽⁷⁾ | * |
| All Directors and Officers as a group (5 persons) | 12,341,460 ⁽⁸⁾ | 16.3% |

| Name, Title and Address of Beneficial Owner of Shares ⁽¹⁾ | Amount of Beneficial Ownership | Percent of Class ⁽²⁾ |
|---|--------------------------------------|---------------------------------------|
| <u>5% Beneficial Owners</u> | | |
| Tony VanBrackle | 8,973,385 | 11.8% |
| Michael Kelly | 5,000,000 | 6.6% |
| William Clark | 4,715,485 | 6.5% |

*Represents a percentage under 1%.

- (1) The address for the officers and directors of the Company is c/o Spindle, Inc., 1201 S. Alma School Road, Suite 12500, Mesa, Arizona 85210.
- (2) As of April 7, 2017, there were 75,925,199 shares of our common stock issued and outstanding. In determining the percentage of common stock beneficially owned by the selling stockholders as of April 7, 2017, (a) the numerator is the number of shares of common stock beneficially owned by a selling stockholder (including the shares that he has the right to acquire within 60 days of April 7, 2017), and (b) the denominator is the sum of (i) the 75,925,199 shares of common stock outstanding on April 7, 2017 and (ii) the number of shares of common stock which the selling stockholder has the right to acquire within 60 days of April 7, 2017.
- (3) Includes 7,034,186 shares of common stock owned of record by Dr. Scott, 150,000 shares which represent the vested portion of a stock option to purchase 150,000 shares of our common stock at an exercise price of \$0.13 per share that expire on December 23, 2025 and 96,000 warrant shares that Dr. Scott has the option to purchase at a price of \$0.135 per share.
- (4) Includes 1,185,778 shares of common stock owned of record by Mr. Devlin, 300,000 shares which represent the vested portion of a stock option to purchase 300,000 shares of our common stock at an exercise price of \$0.50 per share that expire on October 29, 2022, 100,000 shares which represent the vested portion of a stock option to purchase 150,000 shares of our common stock at an exercise price of \$0.50 per share that expire on January 29, 2024 and 150,000 shares which represent the vested portion of a stock option to purchase 150,000 shares of our common stock at an exercise price of \$0.13 per share that expire on December 23, 2025.
- (5) Includes 428,537 shares of common stock owned directly by Mr. Knuettel, 460,000 shares owned of record by entities of which Mr. Knuettel has control, 150,000 shares which represent the vested portion of a stock option to purchase 150,000 shares of our common stock at an exercise price of \$0.13 per share that expire on December 23, 2025, and 37,037 warrant shares that Mr. Knuettel has the option to purchase at a price of \$0.135.
- (6) Includes 1,312,779 shares of common stock owned of record by Mr. Bancroft, 300,000 shares which represent the vested portion of a stock option to purchase 300,000 shares of our common stock at an exercise price of \$0.50 per share that expire on October 27, 2022, 150,000 shares which represent the vested portion of a stock option to purchase 150,000 shares of our common stock at an exercise price of \$0.50 per share that expire on January 29, 2024, and 150,000 shares which represent the vested portion of a stock option to purchase 150,000 shares of our common stock at an exercise price of \$0.13 per share that expire on December 23, 2025.
- (7) Includes 287,143 shares of common stock.
- (8) Includes 10,248,4223 shares of common stock held by executive officers and directors, 460,000 shares of common stock owned by entities controlled by executive officers and directors, and 1,633,037 shares issuable upon exercise of stock options and warrants held by executive officers and directors.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The following describes all transactions since January 1, 2016 through the date of this report (the "Reporting Period") and all proposed transactions in which we are, or we will be, a participant and the amount involved exceeds \$120,000 or 1% of the average of our total assets at year-end for the last two completed fiscal years and in which any related person had or will have a direct or indirect material interest.

During the year ended December 31, 2011, we issued a Revolving Credit Grid Note to Mr. Ide covering cash advances up to \$60,000. The Note was subsequently amended in May 2012 to increase the principal amount of advances to \$250,000. The note is non-interest bearing, unsecured and matured on December 15, 2014; however, as of the date of this report, such note has not been repaid. We imputed interest at a rate of 2% per annum and recorded a discount in the amount of \$17,709 which was amortized to interest expense over the term of the note. As of December 31, 2016, the outstanding balance of this note is \$48,553.

On December 23, 2015, we issued options for the purchase of 150,000 shares of common stock to William Clark, our former Chief Executive Officer and a director, and to Francis Knuettel II, Jack Scott, Glenn Bancroft and John Devlin, each of whom is a member of the Board of Directors, and to Tony VanBrackle, whom at the time was a member of the Board of Directors. The options vest 1/3 over each of three years, have a 10-year term and an exercise price of \$0.13 per share. Messrs. Clark and VanBrackle's options were cancelled as unvested shares upon their resignations from the Board of Directors.

On June 30, 2014, the Company issued a promissory note in the amount of \$100,000 to William Clark, its former Chief Executive Officer, for amounts previously advanced to the Company for working capital. The note was non-interest bearing, unsecured and matured on June 30, 2015. The Company imputed interest at a rate of 2% per annum and recorded a discount in the amount of \$110 which recorded to interest expense on our statement of operations. The note was repaid in full as of December 31, 2015.

Pursuant to Glen Bancroft's 2014 consulting agreement, Mr. Bancroft was issued 100,000 shares of our common stock on June 18, 2015 for his services rendered.

During the twelve months ended December 31, 2015, Dr. Scott, Mr. Devlin and Mr. VanBrackle, along with Mr. Clark and Mr. Bancroft, also members of the board of directors, advanced the Company an additional \$870,000. The terms of these advances were not formalized. During the Reporting Period, \$1,095,000 was the largest amount of principal outstanding. As of December 31, 2015, all amounts were paid in full through cash and the issuance of common stock.

Director Independence

Our board of directors has determined using the definition of "independent" in Rule 5605 of the Rules of the Nasdaq Stock Market, we have determined that Glenn Bancroft, Francis Knuettel II and Habib Yunus are independent.

Item 14. Principal Accounting Fees and Services

RBSM, LLP serves as our principal independent registered accounting firm. The following table presents fees for professional accounting services rendered by our principal accountant for the audit of our annual financial statements for 2016 and 2015, and fees billed for other services rendered.

| SERVICES | 2016 | 2015 |
|------------------------|-----------|-----------|
| Audit fees | \$ 40,000 | \$ 38,000 |
| Audit-related fees (1) | 3,000 | 1,500 |
| Tax fees | 1,500 | 9,000 |
| All other fees | - | - |
| TOTAL | \$ 44,500 | \$ 48,500 |

- (1) Audit related fees consist of fees related to services provided in relation to securities offerings and expert consents provided in connection with SEC filings.

Each year, the Audit Committee approves the annual audit engagement in advance. The Audit Committee also has established procedures to pre-approve all non-audit services provided by the principal independent registered public accounting firm. All 2016 and 2015 non-audit services listed above were pre-approved.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following exhibits and financial statements are filed as part of, or are incorporated by reference into, this report:

(1) Financial Statements

The following financial statements are filed with this Annual Report and can be found beginning at page F-1 of this report:

- Report of Independent Registered Public Accounting Firm dated April 18, 2017;
- Balance Sheets as of December 31, 2016, and December 31, 2015;
- Statements of Operations for the Years Ended December 31, 2016 and, December 31, 2015;
- Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2016 and December 31, 2015;
- Statements of Cash Flows for the Years Ended December 31, 2016 and December 31, 2015; and
- Notes to Financial Statements.

(2) Financial Statement Schedules

The following financial statement schedule is filed with this Annual Report on Form 10-K and can be found following the Notes to Financial Statements:

None

All other schedules have been omitted because the information required to be shown in the schedules is not applicable or is included elsewhere in the financial statements and Notes to Financial Statements.

(3) Exhibits

See "Exhibit Index" following the signature page of this Form 10-K for a description of the documents that are filed as Exhibits to this Annual Report on Form 10-K or incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this, 19th day of April 2017.

SPINDLE, INC.

(Registrant)

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|----------------|
| <u>/s/ Jack A. Scott</u> Jack A. Scott | Interim Chief Executive Officer, Principal Executive Officer | April 19, 2017 |
| <u>/s/ John Devlin</u> John Devlin | Interim Chief Financial Officer, Principal Financial Officer | April 19, 2017 |

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jack A. Scott and John Devlin jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|----------------|
| <u>/s/Jack A. Scott</u> Jack A. Scott | Interim Chief Executive Officer, Principal Executive Officer | April 19, 2017 |
| <u>/s/ John Devlin</u> John Devlin | Interim Chief Financial Officer, Principal Financial Officer, Director | April 19, 2017 |
| <u>/s/ Francis Knuettel II</u> Francis Knuettel II | Chairman of the Board of Directors, Director | April 19, 2017 |
| <u>/s/ Glenn Bancroft</u> Glenn Bancroft | Director | April 19, 2017 |
| <u>/s/ Habib Yunus</u> Habib Yunus | Director | April 19, 2017 |

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| 2.1 | Asset Purchase Agreements, dated December 2, 2011, by and by and between Coyote Hills Golf, Inc., a Nevada corporation, Spindle Mobile, Inc., Mitch Powers, Stephanie Erickson, and Kamiar Khatami ⁽²⁾ |
| 2.2 | Addendum No. 1 to Asset Purchase Agreement entered into on March 29, 2012 between Spindle, Inc., Spindle Mobile, Inc., Mitch Powers, Stephanie Erickson and Kamiar Khatami ⁽³⁾ |
| 2.3 | Asset Purchase Agreement entered into on December 10, 2013 between Spindle, Inc. and Y Dissolution, Inc. ⁽¹⁾ |
| 3.1 | Articles of Incorporation, as amended ⁽¹⁾ |
| 3.2 | By-Laws ⁽¹⁾ |
| 4.1 | Specimen Common Stock Certificate of the Company ⁽⁶⁾ |
| 10.1 | Asset Purchase Agreement entered into on December 31, 2012 between Spindle, Inc. and Parallel Solutions Inc. ⁽¹⁾ |
| 10.2 | Asset Purchase Agreement entered into on March 1, 2013 between Spindle, Inc. and MeNetwork, Inc. ⁽⁴⁾ |
| 10.3** | First Amendment and Waiver to Asset Purchase Agreement entered into on December 12, 2014 between Spindle, Inc. and Ashton Craig Page ⁽⁶⁾ |
| 10.5+ | Spindle, Inc. 2012 Stock Incentive Plan ⁽¹⁾ |
| 10.8+ | Consulting Services Agreement by and between Spindle, Inc. and Glenn Bancroft ⁽⁶⁾ |
| 10.9+ | Spindle, Inc. 2014 Consultants' Compensation Plan ⁽⁷⁾ |
| 10.10+ | Asset Purchase Agreement entered into on June 4, 2015 by and between Spindle, Inc. and C&H Financial Services, Inc. ⁽⁵⁾ |
| 10.11+ | Executive Consulting Agreement by and between Spindle, Inc. and Michael J. Schwartz ⁽⁹⁾ |
| 10.12 | Consulting Services Agreement by and between Spindle, Inc. and Camden Capital, LLC ⁽¹⁰⁾ |
| 14.1 | Code of Ethics ⁽⁸⁾ |
| 21.1 | List of subsidiaries of Spindle, Inc. ⁽⁶⁾ |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 101.INS | XBRL Instance* |
| 101.SCH | XBRL Taxonomy Extension Schema* |
| 101.CAL | XBRL Taxonomy Extension Calculation* |
| 101.DEF | XBRL Taxonomy Extension Definition* |
| 101.LAB | XBRL Taxonomy Extension Label* |
| 101.PRE | XBRL Taxonomy Extension Presentation * |

*Filed Herewith

**Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplemental copies of any omitted schedules as exhibits to the SEC upon request.

+ Indicates a management contract or compensatory plan.

- (1) Incorporated by reference to the registrant's Form 10 Registration Statement filed with the Securities and Exchange Commission on February 25, 2014.
- (2) Incorporated by reference to the Current Report on Form 8-K filed by the registrant with the Securities and Exchange Commission on December 6, 2011.
- (3) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2011 filed by the registrant with the Securities and Exchange Commission on March 30, 2012.
- (4) Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended March 30, 2013 filed by the registrant with the Securities and Exchange Commission on September 3, 2013.
- (5) Incorporated by reference to the Current Report on Form 8-K filed by the registrant with the Securities and Exchange Commission on June 10, 2015.

- (6) Incorporated by reference to the Registration Statement on Form S-1 filed by the registrant with the Securities and Exchange Commission on February 3, 2015.
- (7) Incorporated by reference to the Registration Statement on Form S-8 filed by the registrant with the Securities and Exchange Commission on June 5, 2014.
- (8) Incorporated by reference to the Annual Report on Form 10-K filed by the registrant with the Securities and Exchange Commission on March 30, 2016.
- (9) Incorporated by reference to the Current Report on Form 8-K filed by the registrant with the Securities and Exchange Commission on June 14, 2016.
- (10) Incorporated by reference to the Current Report on Form 8-K filed by the registrant with the Securities and Exchange Commission on June 30, 2016.

The audited financial statements for the years ended December 31, 2016 and 2015 are included on the following pages:

INDEX TO FINANCIAL STATEMENTS

| | Page |
|---|-------------|
| Financial Statements: | |
| Report of Independent Registered Public Accounting Firm | F-1 |
| Balance Sheets | F-2 |
| Statements of Operations | F-3 |
| Statements of Stockholders' Equity (Deficit) | F-4 |
| Statements of Cash Flows | F-5 |
| Notes to Financial Statements | F-6 to F-21 |

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of Spindle, Inc. (“the Company”) as of December 31, 2016 and 2015, and the related statements of operations, stockholders’ (deficit) equity, and cash flows for each of the years in the two-year period ended December 31, 2016. Spindle Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spindle, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM, LLP
Henderson, Nevada

April 19, 2017

Spindle, Inc.
Balance Sheets

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 3,642 | \$ 161,226 |
| Accounts receivable, net | 82,913 | 105,096 |
| Prepaid expenses and deposits | 160,280 | 1,789,547 |
| Inventory | - | 10,579 |
| Total current assets | 246,835 | 2,066,448 |
| Other assets: | | |
| Property and equipment, net | 14,284 | 16,921 |
| Goodwill, net | - | 4,636,212 |
| Other intangible assets, net | 134,758 | 1,422,750 |
| Total other assets | 149,042 | 6,075,883 |
| TOTAL ASSETS | \$ 395,877 | \$ 8,142,331 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 396,237 | \$ 342,201 |
| Advances | 10,000 | 190,000 |
| Accrued liabilities - related party | 414,327 | 14,437 |
| Notes payable | 64,053 | 66,053 |
| Total current liabilities | 884,617 | 612,691 |
| Convertible note payable, net of unamortized discount | 38,526 | - |
| Convertible note payable - related party, net of unamortized discount | 79,498 | - |
| Total liabilities | 1,002,641 | 612,691 |
| Commitments and contingencies | | |
| Stockholders' (deficit) equity: | | |
| Preferred stock, \$0.001 par value, 50,000,000 shares authorized, no shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively | - | - |
| Common stock, \$0.001 par value, 300,000,000 shares authorized, 70,596,285 and 64,296,519 shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively | 70,596 | 64,297 |
| Common stock authorized and unissued, 250,449 and 696,853 shares as of December 31, 2016 and December 31, 2015, respectively | 250 | 697 |
| Additional paid-in capital | 27,516,362 | 26,576,761 |
| Accumulated deficit | (28,193,972) | (19,112,115) |
| Total stockholders' (deficit) equity | (606,764) | 7,529,640 |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | \$ 395,877 | \$ 8,142,331 |

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

Spindle, Inc.
Statements of Operations

| | Years Ended December 31, | |
|--|---------------------------------|-----------------------|
| | 2016 | 2015 |
| Revenue: | | |
| Sales income | \$ 589,000 | \$ 521,037 |
| Cost of sales | <u>69,901</u> | <u>211,941</u> |
| Gross profit | 519,099 | 309,096 |
| Expenses: | | |
| Depreciation and amortization | 428,494 | 546,785 |
| Promotional and marketing | 19,446 | 49,485 |
| Consulting | 506,146 | 436,529 |
| Salaries and wages (including share-based compensation) | 1,447,009 | 1,601,751 |
| Directors fees | 160,115 | 203,900 |
| Professional fees | 455,139 | 374,021 |
| General and administrative | 462,462 | 261,984 |
| Bad debt expense | 267,118 | - |
| Loss on impairment of goodwill | 4,636,212 | 669,993 |
| Loss on impairment of long-lived assets | <u>1,077,405</u> | <u>254,940</u> |
| Total operating expenses | <u>9,459,546</u> | <u>4,399,388</u> |
| Net operating loss | (8,940,447) | (4,090,292) |
| Other income (expense): | | |
| Gain on sale of assets | - | 269,817 |
| Legal settlement | (115,000) | - |
| Other income | 63,824 | - |
| Other expense | (10,138) | (37,610) |
| Interest expense | (61,119) | (1,558) |
| Interest expense - related party | <u>(18,977)</u> | <u>(55)</u> |
| Total other income (expense) | <u>(141,410)</u> | <u>230,594</u> |
| Loss before income tax provision | (9,081,857) | (3,859,698) |
| Provision for income taxes | - | - |
| Net loss | <u>\$ (9,081,857)</u> | <u>\$ (3,859,698)</u> |
| Weighted average number of common shares outstanding - basic and diluted | <u>67,454,703</u> | <u>47,564,687</u> |
| Net (loss) per share - basic and fully- diluted | <u>\$ (0.13)</u> | <u>\$ (0.08)</u> |

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

Spindle, Inc.
Statements of Stockholders' Equity

| | <u>Common Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Common Stock Payable</u> | <u>Accumulated (Deficit)</u> | <u>Total</u> |
|--|---------------------|---------------|---|-------------------------------------|----------------------------------|--------------|
| | <u>Shares</u> | <u>Amount</u> | | | | |
| Balance, December 31, 2014 | 42,068,773 | \$42,069 | \$21,470,580 | \$108 | (\$15,252,417) | \$6,260,340 |
| Shares issued for services | 14,206,080 | 14,206 | 2,607,357 | 565 | - | 2,622,128 |
| Shares issued for cash | 350,000 | 350 | 174,650 | - | - | 175,000 |
| Shares issued for compensation | 371,666 | 372 | 68,894 | 24 | - | 69,290 |
| Shares issued in HWW License agreement | 7,000,000 | 7,000 | 1,603,000 | - | - | 1,610,000 |
| Shares issued for Catalyst acquisition | 300,000 | 300 | 74,700 | - | - | 75,000 |
| Stock option amortization | - | - | 577,580 | - | - | 577,580 |
| Net loss | - | - | - | - | (3,859,698) | (3,859,698) |
| Balance, December 31, 2015 | 64,296,519 | \$64,297 | \$26,576,761 | \$697 | (\$19,112,115) | \$7,529,640 |
| Shares issued for services | 798,436 | 799 | 121,396 | 233 | - | 122,428 |
| Shares issued for services - related party | 2,488,993 | 2,238 | 420,914 | (680) | - | 422,472 |
| Shares issued for cash | 9,504,449 | 9,504 | 1,273,603 | - | - | 1,283,107 |
| Shares for prepaid expenses | 458,337 | 458 | 93,501 | - | - | 93,959 |
| Amortization of discount on notes payable | - | - | 215,333 | - | - | 215,333 |
| Return of HWW shares | (6,700,000) | (6,700) | (1,588,300) | - | - | (1,595,000) |
| Stock option amortization | - | - | 403,154 | - | - | 403,154 |
| Net loss | - | - | - | - | (9,081,857) | (9,081,857) |
| Balance, December 31, 2016 | 70,846,734 | \$70,596 | \$27,516,362 | \$250 | (\$28,193,972) | (\$606,764) |

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

Spindle, Inc.
Statements of Cash Flows

| | Years Ended December 31, | |
|---|-------------------------------------|----------------|
| | 2016 | 2015 |
| Operating activities | | |
| Net loss | \$ (9,081,857) | \$ (3,859,698) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Shares issued for services | 122,428 | 471,351 |
| Shares issued for services - related party | 422,476 | 200,663 |
| Shares based compensation expense | 403,154 | 577,579 |
| Depreciation and amortization | 428,494 | 546,785 |
| Gain on sale of assets | - | (269,817) |
| Amortization of debt discount | 53,526 | - |
| Amortization of debt discount - related party | 12,831 | 55 |
| Goodwill impairment | 4,636,212 | 669,993 |
| Loss on impairment of long-lived assets | 1,077,405 | 254,940 |
| Gain on forgiveness of bad debt | (63,824) | - |
| Loss related to bad debt | 267,118 | - |
| Loss on legal settlement | 115,000 | - |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (244,935) | 55,620 |
| Decrease (Increase) in prepaid expenses | 113,222 | (88,737) |
| Increase in inventory | - | 90,068 |
| Increase in advances | - | (25,000) |
| Increase in accounts payable and accrued expenses | 117,860 | 68,966 |
| Increase in expenses - related party | 499,890 | 946,702 |
| Net cash used in operating activities | (1,121,000) | (360,530) |
| Investing activities | | |
| Purchase of property and equipment | (3,613) | - |
| Sale of fixed assets | - | 678,366 |
| Additions to capitalized software development | (201,078) | (515,417) |
| Net cash (used in) provided by investing activities | (204,691) | 162,949 |
| Financing activities | | |
| Return of subscriptions | (100,000) | - |
| Payments on notes payable | (32,500) | - |
| Repayment of advance from related party | (8,000) | (6,000) |
| Proceeds from advances and notes | 25,500 | - |
| Proceeds from restricted cash account | - | 20,000 |
| Proceeds from the sale of common stock | 1,283,107 | 175,000 |
| Net cash provided by financing activities | 1,168,107 | 189,000 |
| Net increase (decrease) in cash | (157,584) | (8,581) |
| Cash - beginning | 161,226 | 169,807 |
| Cash - ending | \$ 3,642 | \$ 161,226 |

See Supplemental Disclosure of Cash Flow Information at Note 15.

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

Spindle, Inc.
Notes to Financial Statements

NOTE 1 - ORGANIZATION OF THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Spindle, Inc. is an innovator of merchant and consumer-facing commerce solutions focused on the Small and Medium-sized Business (“SMB”) market. We were originally incorporated in the State of Nevada on January 8, 2007 as “Coyote Hills Golf, Inc.” We were previously an online retailer of golf-related apparel, equipment and supplies. Prior to the acquisition of the assets of Spindle Mobile, Inc. (“Spindle Mobile”), as described below, we generated minimal revenues from the golf-related business.

On December 2, 2011, we acquired certain assets and intellectual property from Spindle Mobile, a Delaware corporation in the business of data processing, mobile payments fields and other related fields, in exchange for approximately 80% of the issued and outstanding common stock of the Company, which shares were distributed to the stockholders of Spindle Mobile, pursuant to the terms and conditions of an Asset Purchase Agreement (the “Spindle Mobile Agreement”).

Concurrent with the closing of the Spindle Mobile Agreement, we amended our articles of incorporation to change our name from “Coyote Hills Golf, Inc.” to “Spindle, Inc.” Additionally, we changed our authorized capital from 100,000,000 shares of common stock and 100,000,000 shares of preferred stock, \$0.001 par value to 300,000,000 shares of common stock, \$0.001 par value, and 50,000,000 preferred stock, \$0.001 par value. The actions were approved on November 11, 2011, by the consent of the majority stockholders who represented 90% of our issued and outstanding common stock, and were effective on of December 2, 2011.

On December 31, 2012 (the “Parallel Acquisition Closing Date”), pursuant to that certain Asset Purchase Agreement (the “Parallel Agreement”) by and between the Company and Parallel Solutions Inc., a Nevada corporation (“Parallel”), the Company acquired substantially all of Parallel’s assets used in connection with its business of facilitating electronic payment processing services to merchants (the “Parallel Assets”), assumed certain specified liabilities and hired seven employees of Parallel in exchange for 538,570 unregistered shares of common stock, of which 53,857 shares (the “Parallel Indemnification Escrow”) and 100,000 shares (the “Parallel Deferred Consent Escrow”) were deposited in escrow with our transfer agent. The Parallel Indemnification Escrow was released on January 23, 2014. On October 29, 2013, the Parallel Deferred Consent Escrow was released to Parallel after certain specified contract assignments and residual revenue streams were assigned to the Company pursuant to the Parallel Agreement. In June of 2015, the Parallel Assets were sold.

On March 20, 2013 (the “MeNetwork Closing Date”), the Company assumed certain liabilities and acquired substantially all the assets of MeNetwork, Inc., a Delaware corporation (“MeNetwork”), used in connection with its business of developing, marketing and licensing a mobile marketing platform for use by merchants and consumers (the “MeNetwork Assets”), pursuant to an Asset Purchase Agreement dated March 1, 2013 by and between Spindle and MeNetwork (the “MeNetwork Agreement”). As consideration for the assumption of the liabilities and the acquisition of the MeNetwork Assets, the Company issued an aggregate of 2,750,000 shares of common stock to the stockholders of MeNetwork, of which 350,000 were deposited in escrow with our transfer agent for the purposes of satisfying any indemnification claims. The MeNetwork Indemnification Escrow was released pursuant to the MeNetwork Agreement. On October 7, 2013, the Company issued an additional 750,000 shares of common stock to Ashton Craig Page, the former director and Chief Operating Officer of MeNetwork and a former director of the Company, pursuant to the terms and conditions of the MeNetwork Agreement. On December 12, 2014, the Company, and Ashton Craig Page, in his capacity as the representative of MeNetwork and the MeNetwork Stockholders (the “Representative”), entered into an Amendment and Waiver to Asset Purchase Agreement (the “Amendment”), pursuant to which the Company agreed to issue and the Representative agreed to accept on behalf of MeNetwork and the MeNetwork Stockholders an acceleration of the issuance of up to an aggregate of 1,000,000 Earnout Shares on or before December 31, 2014 in full satisfaction of all obligations of the Company to issue the Earnout Shares pursuant to the Purchase Agreement during the Earnout Period. These shares were issued on December 23, 2014.

On January 3, 2014 (the “Closing Date”), the Company acquired substantially all of the assets of Yowza International Inc. (renamed Y Dissolution, Inc.) (“Yowza!!”) used in connection with its business of providing retail coupons through a mobile application (the “Yowza Assets”), and assumed certain liabilities of Yowza!! in an amount equal to \$15,000 for consideration equal to (1) \$500,000 in cash paid to Yowza!! and certain creditors and holders of outstanding promissory notes issued by Yowza!! and (2) an aggregate of 1,642,000 unregistered shares of our common stock (the “Aggregate Share Consideration”), issuable to the holders of Yowza!!’s outstanding capital stock. Ten percent of the Aggregate Share Consideration is issuable to certain executive management members and advisors of Yowza!! in accordance with consulting or employment agreements and subject to certain vesting provisions. In addition, an aggregate of 197,052 shares of common stock (the “Indemnification Escrow”), representing approximately 12% of the Aggregate Share Consideration, was deposited in escrow for a period of one year from the Closing Date. The Yowza!! Indemnification Escrow was released on January 12, 2015. The Indemnification Escrow is available to compensate Spindle pursuant to the indemnification obligations of Yowza!! under the Asset Purchase Agreement, and for any necessary accounts receivable adjustment after the Closing Date in the event Spindle is unable to collect the acquired outstanding accounts receivable of Yowza!! within 120 days after the Closing Date.

On October 23, 2015 (the “Closing Date”) the Company completed the acquisition of specific assets of Catalyst Business Development, Inc. (“Catalyst”) pursuant to an Asset Purchase Agreement, dated September 14, 2015, by and between the Company and Catalyst in exchange for 300,000 unregistered shares of the Company’s common stock issued to the holders of Catalyst stock. The consideration amounted to \$75,000 using a fair value of \$0.25 per share at the Closing Date. The assets acquired included a white-labeled license of the Merchant Partners solution and various assets related to branding, marketing and sales. Spindle will continue to operate the gateway under the Catalyst brand.

Reclassifications

Certain reclassifications have been made to the prior years’ financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Summary of significant accounting policies

Cash and cash equivalents

The Company considers cash and cash equivalents to include all stable, highly liquid investments with an original maturity of three months or less from the date of purchase.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Revenue recognition

Revenue is derived on a per transaction basis through the Company’s gateway and payments platforms. The Company also earns revenue for services, account establishment fees and licensure on Software as a Service (“SaaS”) basis, and on a performance basis, such as when a client acquires a new customer through our platform. Revenue is recognized in accordance with Staff Accounting Bulletin (“SAB”) No. 101, “Revenue Recognition in Financial Statements,” as revised by SAB No. 104. As such, the Company recognizes revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collectability is probable. Sales are recorded net of sales discounts.

Accounts receivable, net

Accounts receivable is reported at the customers' outstanding balances, less any allowance for doubtful accounts. An allowance for doubtful accounts on accounts receivable is charged to operations in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. Accounts receivable are charged off against the allowance when collectability is determined to be permanently impaired. Interest is not accrued on overdue accounts receivable.

Inventory

Inventories consist of merchandise held for sale in the ordinary course of business, including cost of freight and other miscellaneous acquisition costs, and are stated at the lower of cost or market on a FIFO basis. The Company records a write-down for inventories which have become obsolete or are more than anticipated demand or net realizable value. We periodically perform a detailed review of inventory that considers multiple factors including demand forecasts, market conditions, product life cycle status, product development plans and current sales levels. If actual demand or market conditions for the Company's products are less favorable than forecasted or if unforeseen changes negatively affect the utility of the Company's inventory, additional inventory write-downs may be required.

In the fourth quarter of 2016, management's review determined that the carrying value of inventory consisted of items that were obsolete or would never be used by the Company. In this respect, equipment in inventory with a total cost of \$10,579 was written off and a loss recorded to impairment expense.

Property and equipment

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts. Replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

Depreciation is computed on the straight-line and accelerated methods for financial reporting and income tax reporting purposes based upon the following estimated useful lives:

| | |
|--------------------------------|---------|
| Computer Software | 3 years |
| Computer Equipment | 5 years |
| Office furniture and equipment | 7 years |

Long-lived assets

The Company accounts for its long-lived assets in accordance with ASC Topic 360-10-05, "Accounting for the Impairment or Disposal of Long-Lived Assets." "ASC Topic 360-10-05" requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. The Company recorded an impairment to its intellectual property for the year ended December 31, 2016 as further discussed in Note 6.

Goodwill

The Company accounts for goodwill in accordance with ASC Topic 805-30-25, "Accounting for Business Combinations" ("ASC Topic 805-30") and "Accounting for Goodwill - Subsequent Measurement" ("ASC Topic 350-20-35").

ASC Topic 805-30 requires that the acquirer shall recognize goodwill as of the acquisition date as the excess of the fair value of the consideration transferred over the fair value of the net acquisition-date amounts of the identifiable assets and liabilities assumed.

ASC Topic 350-20-35 requires that goodwill acquired in a purchase and determined to have an indefinite useful life is not amortized, but instead tested for impairment annually or more frequently when events or circumstances indicates that the carrying value of a reporting unit more likely than not exceeds its fair value. The Company's annual goodwill impairment testing date is December 31 of each year. The Company first assesses qualitative factors to determine whether it's necessary to perform the two-step goodwill impairment test. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. If the qualitative assessment results in an indication that it's more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative assessment must be performed. Management has determined that the Company has one reporting unit for purposes of testing goodwill.

The quantitative analysis involves estimating the fair value of its reporting unit utilizing a combination of valuation methods including market capitalization, the income approach and cash flows. Income and cash flow forecasts were used in the evaluation of goodwill based on management's estimate of future performance. If goodwill is determined to be impaired because of this analysis, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. The Company recorded impairment to its goodwill for each of the years ended December 31, 2016 and December 31, 2015 as further discussed in Note 8.

Capitalized software development costs

The Company capitalizes software development costs after establishing technological feasibility of a software application. Capitalized software development costs represent the costs associated with the development of the Company's software applications used to generate revenue from our customers. Amortization of such costs is recorded on a software application-by-application basis, based on the greater of the proportion of current year sales to the total of current and estimated future sales for the applications or the straight-line method over the remaining estimated useful life of the software application. We continually evaluate the recoverability of capitalized software costs and will charge to operations amounts that are deemed unrecoverable for projects we may abandon. The Company recorded an impairment to its software development costs for the years ended December 31, 2016 and December 31, 2015 of \$1,059,099 and \$254,940, respectively.

Beneficial Conversion Feature

If the conversion features of conventional convertible debt provide for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 "Debt with Conversion and Other Options." In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense over the life of the debt using the effective interest method.

Debt Discount

The Company determines if the convertible debenture should be accounted for as liability or equity under ASC 480, Liabilities - Distinguishing Liabilities from Equity ("ASC 480"). ASC 480, applies to certain contracts involving a company's own equity, and requires that issuers classify the following freestanding financial instruments as liabilities. Mandatorily redeemable financial instruments, obligations that require or may require repurchase of the issuer's equity shares by transferring assets (e.g., written put options and forward purchase contracts), and certain obligations where at inception the monetary value of the obligation is based solely or predominantly on:

- A fixed monetary amount known at inception, for example, a payable settleable with a variable number of the issuer's equity shares with an issuance date fair value equal to a fixed dollar amount,
- Variations in something other than the fair value of the issuer's equity shares, for example, a financial instrument indexed to the S&P 500 and settleable with a variable number of the issuer's equity shares, or
- Variations inversely related to changes in the fair value of the issuer's equity shares, for example, a written put that could be net share settled.

If the entity determined the instrument meets the guidance under ASC 480 the instrument is accounted for as a liability with a respective debt discount. The Company records debt discounts in connection with raising funds through the issuance of promissory notes (see Notes 9 and 10). These costs are amortized to non-cash interest expense over the life of the debt. If a conversion of the underlying debt occurs, a proportionate share of the unamortized amounts is immediately expensed.

Stock-based compensation

The Company accounts for stock-based payments to employees in accordance with ASC 718, "Stock Compensation" ("ASC 718"). Stock-based payments to employees include grants of stock, grants of stock options and issuance of warrants that are recognized in the statement of operations based on their fair values at the date of grant.

The Company accounts for stock-based payments to non-employees in accordance with ASC 505-50, "Equity-Based Payments to Non-Employees." ("ASC 505-50") Stock-based payments to non-employees include grants of stock, grants of stock options and issuances of warrants that are recognized in the statement of operations based on the value of the vested portion of the award over the requisite service period as measured at its then-current fair value as of each financial reporting date. The Company calculates the fair value of option grants and warrant issuances utilizing the Black-Scholes pricing model. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time stock options are granted and warrants are issued to employees and non-employees, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock option or warrant.

The Company estimates forfeiture rates for all unvested awards when calculating the expense for the period. In estimating the forfeiture rate, the Company monitors both stock option and warrant exercises as well as employee termination patterns. The resulting stock-based compensation expense for both employee and non-employee awards is generally recognized on compensation under ASC 505-50. In accordance with ASC 505-50, the cost of stock-based compensation is measured at the grant date based on the value of the award and is recognized over the vesting period. The value of the stock-based award is determined using the Black-Scholes option-pricing models, whereby compensation cost is the excess of the fair value of the award as determined by the pricing model at the grant date or other measurement date over the amount that must be paid to acquire the stock.

Loss per share

The Company reports earnings (loss) per share in accordance with ASC Topic 260-10, "Earnings per Share." Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share has not been presented since the effect of the assumed conversion of warrants and debt to purchase common shares would have an anti-dilutive effect. Potential common shares as of December 31, 2016 that have been excluded from the computation of diluted net loss per share amounted to 2,830,920 shares, which includes 1,283,420 warrants and 1,547,500 options. Of the 2,830,920 potential common shares at December 31, 2016, 215,834 had not vested. Potential common shares as of December 31, 2015 that have been excluded from the computation of diluted net loss per share amounted to 3,440,000 shares which includes 600,000 warrants and 2,840,000 options. Of the 2,840,000 potential common shares at December 31, 2015, 1,245,833 had not vested. See Note 12 for more information regarding our warrants and options. The Company also has two notes payable that have conversion features. Were the holders to exercise such features, an additional 31,000 shares could be issued based on the note balances at December 31, 2016.

Income taxes

The Company accounts for its income taxes under the provisions of "Income Taxes" ("ASC 740"). The method of accounting for income taxes under ASC 740 is the asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

Fair value of financial instruments

We account for non-recurring fair value measurements of our non-financial assets and liabilities in accordance with ASC 820-10 Fair Value Measurement. This guidance defines fair value, establishes a framework for measuring fair value and addresses required disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those which are obtained from market participants external to the Company while unobservable inputs are generally developed internally, utilizing management's estimates, assumptions and specific knowledge of the assets/liabilities and related markets. The three levels are defined as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.

Level 3 - Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the company's own estimates about the assumptions that market participants would use to value the asset or liability.

If the only observable inputs are from inactive markets or for transactions which the Company evaluates as "distressed", the use of Level 1 inputs should be modified by the company to properly address these factors, or the reliance of such inputs may be limited, with a greater weight attributed to Level 3 inputs.

Due to the short-term nature of our financial assets and liabilities, we consider their carrying amounts to approximate fair value.

Recent Accounting Standards

The Company continually assesses any new accounting pronouncements to determine their applicability to the Company. Where it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financials properly reflect the change. In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04 *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). This guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for interim and annual period beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-01 *Business Combinations (Topic 805): Clarifying the Definition of a Business* ("ASU 2017-01"), which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

In October 2016, the FASB issued Accounting Standards Update ("ASU") 2016-16 *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"), which eliminates the exception in existing guidance which defers the recognition of the tax effects of intra-entity asset transfers other than inventory until the transferred asset is sold to a third party. Rather, the amended guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted as of the beginning of an annual reporting period. The Company is currently assessing the impact of this guidance on its financial statements.

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). The standard is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted for all entities. The Company is currently evaluating the impact of this guidance on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*” (“ASU 2016-09”). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. Accordingly, the standard is effective for us on September 1, 2017 and we are currently evaluating the impact that the standard will have on our financial statements.

NOTE 2 - GOING CONCERN

The accompanying financial statements have been prepared assuming we will continue as a going concern. As shown in the accompanying financial statements, the Company has incurred a net loss of (\$9,081,857) and (\$3,859,698) for the fiscal years ended December 31, 2016 and 2015, respectively and at December 31, 2016, has an accumulated deficit of (\$28,193,972).

To continue as a going concern, the Company may need, among other things, additional capital resources. There are no assurances that without generating new revenue in 2017 that the Company will be successful without additional financing. Should revenues not grow sufficiently and the company will not be able to secure additional financing through the sale of its securities or debt, it would be unlikely for us to continue as a going concern for one year from the issuance of the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence. These conditions raise substantial doubt about our ability to continue as a going concern. These financial statements do not include any adjustments that might arise from this uncertainty.

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following at:

| | December 31, 2016 | December 31, 2015 |
|----------------------------------|----------------------|----------------------|
| Due from customers and vendors | \$ 32,913 | \$ 26,773 |
| Due from sale of residual assets | -- | 75,374 |
| Due from processing activity | 50,000 | 2,949 |
| Total accounts receivable, net | <u>\$ 82,913</u> | <u>\$ 105,096</u> |

With the recent transition of management, the Company has undertaken various analyses with respect to the recorded balances and the underlying assets for the receivables and intangibles. Management analyzed amounts recorded as receivable from processing activity and the likelihood of receiving the full amount due the Company. Recent general interaction and the relationship with one of the processors has indicated that the full amount may not be collected and \$267,118 was recorded to bad debt expense in 2016. The Company continues to pursue payment of all remaining receivables.

NOTE 4 - PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits consist of the following at:

| | December 31, 2016 | December 31, 2015 |
|-------------------------------------|----------------------|----------------------|
| Prepaid insurance | \$ 46,489 | \$ 44,275 |
| Prepaid license and trademark fees | -- | 1,610,000 |
| Prepaid consulting fees | 113,791 | 129,751 |
| Other prepaid expenses | -- | 5,521 |
| Total prepaid expenses and deposits | <u>\$ 160,280</u> | <u>\$ 1,789,547</u> |

On May 26, 2015, the Company entered into a loyalty agreement with Help Worldwide, Inc. (“HWW”), which provided that, upon the terms and subject to the conditions set forth therein, the Company will join the HWW network and become a licensed Loyalty Program Operator (“LPO”) to enable the delivery of a Yowza!! Points program for consumers and merchants in the Yowza!! program. HWW was also to build a Yowza!! branded Rewards Mall for the redemption of Yowza!! Points. Consideration paid to HWW for the LPO was 3,000,000 unregistered shares of the Company’s common stock, which was issued directly to HWW. Pursuant to the Agreement, the Company and HWW were to bundle their respective products to create a package that was to combine and co-brand the features of both parties’ products (the “Bundled Package”). HWW was to promote the Bundled Package including the co-branded mobile application to 30 million consumers. The consideration paid to HWW for the Bundled Package (“Trademark”) was 4,000,000 unregistered shares of the Company’s Common Stock which was issued directly to HWW. The \$690,000 value of the LPO license and the \$920,000 value of the Trademark were reported as prepaid expenses at December 31, 2015. On March 28, 2016, a settlement agreement was signed between the Company and HWW, terminating the LPO license agreement executed in May 2015. The settlement agreement stipulated that HWW was to return 6,500,000 of the 7,000,000 shares of Spindle restricted common stock issued to HWW for the license fee. An additional 200,000 shares and 200,000 warrant shares were returned by a party related to the HWW transaction at a cost of \$100,000 to the Company. Spindle received these shares in April of 2016. The LPO license agreement was terminated amicably and not due to default or breach by any party.

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following at:

| | December 31, 2016 | December 31, 2015 |
|--------------------------------|------------------------------|------------------------------|
| Office furniture & equipment | \$ 34,425 | \$ 31,847 |
| Less: accumulated depreciation | (20,141) | (14,926) |
| Total fixed assets, net | \$ 14,284 | \$ 16,921 |

During the years ended December 31, 2016 and December 31, 2015, we recorded depreciation expense of \$5,600 and \$5,225, respectively.

NOTE 6 - OTHER INTANGIBLE ASSETS, NET

Other intangible assets, net consist of the following at:

| | DECEMBER 31, 2016 GROSS | ACCUMULATED AMORTIZATION | DECEMBER 31, 2016 NET |
|----------------------------------|------------------------------------|-------------------------------------|----------------------------------|
| Capitalized software costs | \$ 25,000 | \$ -- | \$ 25,000 |
| License agreements and contracts | 75,000 | (10,000) | 65,000 |
| Domain names | 75,000 | (30,242) | 44,758 |
| | \$ 175,000 | \$ (40,242) | \$ 134,758 |

| | DECEMBER 31, 2015 GROSS | ACCUMULATED AMORTIZATION | DECEMBER 31, 2015 NET |
|----------------------------------|------------------------------------|-------------------------------------|----------------------------------|
| Capitalized software costs | \$ 2,048,998 | \$ (763,684) | \$ 1,285,314 |
| License agreements and contracts | 75,000 | -- | 75,000 |
| Domain names | 85,000 | (22,564) | 62,436 |
| | \$ 2,208,998 | \$ (786,248) | \$ 1,422,750 |

During the year ended December 31, 2016, management reviewed the carrying amount of the assets and determined because of diversification in the Company’s business model due to its acquisitions, the license agreements previously recorded no longer yielded a net future cash flow. Because of this analysis, the Company recorded, to other expense, an impairment loss of \$1,077,405 in accordance with ASC Topic 360.

During the year ended December 31, 2015, management reviewed the carrying amount of the assets and determined because of changes in the focus of the Company's current direction, certain costs that had been capitalized to software development would not be used and no longer had value to the Company. As a result of this analysis, \$542,771 which was mainly related to the Yowza!! transaction, was recorded as an impairment loss.

NOTE 7 - RESIDUAL CONTRACTS

During the year ended December 31, 2014, management reviewed the carrying amount of the residual income stream purchased from Parallel Solutions, Inc. ("PSI") in 2012. It was determined that because of diversification in the Company's business model due to its acquisitions, that the previously estimated indefinite life of the asset be revised to reflect the Company's future business development goals. The Company estimated a finite remaining useful life of forty-eight months and had recorded amortization expense of \$147,324 as of December 31, 2014.

On June 4, 2015, the Company entered into an agreement to sell the PSI residual income stream for a purchase price of \$753,740. As part of this transaction, \$373,124 was recorded as a gain on sale of assets for the year ended December 31, 2015. As of December 31, 2015, the Company had received \$678,366 of the purchase price and the balance of \$78,323 was recorded as a receivable on the Company's balance sheet. The money was to be received by Spindle upon the satisfaction of certain conditions set forth in the agreement. In 2016, it was determined that Spindle would not be entitled to the remaining funds due to performance of the portfolio and other factors. The \$75,374 was written off as a loss and is included in the \$267,118 total bad debt expense recorded in 2016.

NOTE 8 - GOODWILL

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------------|------------------------------|------------------------------|
| Goodwill | \$ 5,976,198 | \$ 5,976,198 |
| Less: accumulated impairment loss | (5,976,198) | (1,339,986) |
| Total goodwill, net | <u>\$ --</u> | <u>\$ 4,636,212</u> |

In connection with the MeNetwork acquisition (as further described in Note 13) on March 20, 2013, the Company assumed certain liabilities and acquired substantially all the assets of MeNetwork. The Company recorded goodwill related to this acquisition of \$2,679,970. During its 2015 annual evaluation of goodwill, the Company determined that the carrying amount of goodwill related to MeNetwork, exceeded its fair value. Thus, the Company recorded an impairment loss, to other expense, of \$669,993 during the year ended December 31, 2015. This charge reflects the impact of partially sun-setting assets acquired from MeNetwork in conjunction with its integration of Yowza!! The Company again evaluated the carrying amount of goodwill in 2016. From this analysis based future cash flows and the value of the asset in relation to Company's new business direction, the Company determined that the MeNetwork goodwill has no value and recorded an additional impairment loss of \$1,339,984 to other expense for the year ended December 31, 2016.

In connection with the acquisition (as further described in Note 13) on January 3, 2014, the Company assumed certain liabilities and acquired substantially all the assets of Yowza!! The Company recorded goodwill related to this acquisition of \$3,296,228. During its annual evaluations of goodwill for both 2015, the Company determined that the fair value of goodwill exceeded its carrying amount and thus no impairment charge was recorded. During its annual evaluation of goodwill for 2016, the Company determined that due to the change in strategic direction, the carrying amount of goodwill had no value and an impairment charge for the full amount of \$3,296,228 was recorded.

The Company first assesses qualitative factors to determine whether it's necessary to perform the two-step goodwill impairment test. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. If the qualitative assessment results in an indication that it's more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative assessment must be performed. Management has determined that the Company has one reporting unit for purposes of testing goodwill.

The quantitative analysis involves estimating the fair value of its reporting unit utilizing a combination of valuation methods including market capitalization, the income approach and cash flows. Income and cash flow forecasts were used in the evaluation of goodwill based on management's estimate of future performance. If goodwill is determined to be impaired as a result of this analysis, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

NOTE 9 - NOTES PAYABLE AND CONVERTIBLE NOTES PAYABLE, NET OF UNAMORTIZED DISCOUNT

In December 2016, we entered into a \$10,500 Bridge Note Agreement with one of our directors and a \$5,000 Bridge Note Agreement with one of our investors. Both Bridge Notes are secured by the Company's assets and include warrants to purchase two shares of the Company's common stock for each dollar loaned to Spindle. At December 31, 2016, no payments had been made on these Bridge Loans, nor had the related warrants been exercised.

On December 15, 2011, we issued a Promissory Grid Note ("Grid Note") to a former director of the Company which formalized various advances previously received from the former director in the amount of \$51,300 and allowed for future advances of up to \$250,000. The Grid Note is non-interest bearing, unsecured and matured on December 15, 2014. We imputed interest at a rate of 2% per annum and recorded a discount in the amount of \$10,640. In connection with one of the previous advances in the amount of \$25,000, we issued warrants to purchase up to 250,000 shares of our common stock at a price per share of \$1.00 resulting in an additional discount of \$17,709. The total discount attributable to the Grid Note totaled \$28,349 and was amortized to interest expense over the term of the Grid Note. During the twelve months ended December 31, 2015, interest expense of \$54 related to the discount on the unpaid note balance was recorded, and in 2016, interest expense of \$1,527 was recorded. During the years ended December 31, 2016, and December 31, 2015, the Company repaid \$17,500 and \$6,000 of the principal balance of the Grid Note, respectively.

During the year ended December 31, 2014, the Company recorded a \$100,000 note payable to a director of the Company. The note was non-interest bearing and unsecured. The Company imputed interest at a rate of 2% per annum and recorded a discount in the amount of \$110. This note was paid in full with shares of the Company's common stock at December 31, 2015.

NOTE 10 - LONG TERM CONVERTIBLE NOTES PAYABLE - RELATED PARTY, NET OF UNAMORTIZED DISCOUNT

On March 25, 2016, we entered into an agreement with a 12% stockholder of the Company. This agreement is for a \$100,000 promissory note, convertible to stock under certain circumstances. The note bears an interest rate of 6% per annum and has a maturity date of March 25, 2018. The total value of the note, if converted to stock, would be \$133,333 and therefore a discount in the amount of \$33,333 was recorded. This amount is amortized to interest expense - related party over the term of the note. During the twelve months ended December 31, 2016, interest expense of \$6,145 and interest expense related to amortization of the discount on the unpaid note of \$12,831 was recorded. The balance of the unamortized discount at December 31, 2016 was \$20,502.

On May 18, 2016, we converted a \$182,000 payable to an investor and entered into a Convertible Promissory Note ("Note") with an investor in the Company. The note bears an interest rate of 6% per annum and has a maturity date of May 18, 2018. The total value of the note, if converted to stock, would be \$404,444 and therefore a discount in the amount of \$182,000 was recorded, as the conversion feature cannot be greater than the amount of the debt. This amount is amortized to interest expense over the term of the note. During the twelve months ended December 31, 2016, interest expense of \$6,423 and interest expense related to amortization of the discount on the unpaid notes of \$53,526 was recorded. The balance of the unamortized discount at December 31, 2016 was \$128,474. During the twelve months ended December 31, 2016, the Company repaid \$15,000 of the Note's principal balance. This Note is presented as a Long term note payable on our Balance Sheets.

NOTE 11 - STOCKHOLDERS' (DEFICIT) EQUITY

The Company is authorized to issue up to 300,000,000 shares of common stock, par value \$0.001.

During the year ended December 31, 2016, the Company:

- issued 798,436 shares of common stock with a value of \$122,428 to consultants as payment of legal fees. 233,000 of these shares were unissued as of December 31, 2016.
- issued 9,504,449 shares of common stock for cash proceeds totaling \$1,283,107.
- authorized 2,488,993 shares of common stock with a value of \$422,472 to members of our Board of Directors, consultants and members of our advisory board as compensation for their services. 17,000 of these shares were unissued as of December 31, 2016. The total numbers include 592,593 shares of common stock issued with a value of \$152,500 to our former Chief Executive Officer as compensation for services and as part of his transition agreement.
- authorized and issued 458,337 shares of common stock with a value of \$93,959 to consultants for prepaid consulting services.

Also, in accordance with a settlement agreement signed between the Company and Help Worldwide, Inc. ("HWW") that terminated the license agreement between the two entities, HWW returned 6,500,000 of the 7,000,000 shares of Spindle restricted common stock issued to HWW for the license fee in May 2015. The LPO license agreement was terminated amicably and not due to default or breach by any party. In conjunction with the settlement agreement, 200,000 shares of Spindle stock were returned to the Company by one of the principals of HWW, and the associated warrants were cancelled. The entire transaction resulted in a loss to the Company of \$115,000.

We also recorded amortization of discounts on notes payable of \$215,333 to additional paid-in capital.

During the year ended December 31, 2015, the Company:

- authorized the issuance of 7,000,000 shares of common stock valued at \$1,610,000 for the purchase of a license agreement with HWW as described in Note 7.
- authorized 14,206,080 shares of its common stock with a fair value of \$2,622,128 to consultants, directors and other parties for services and as repayment of advances to the Company. As of December 31, 2015, 565,000 of these shares were unissued.
- authorized the issuance of 350,000 shares of its common stock for cash proceeds totaling \$175,000.
- authorized the issuance of 300,000 shares of its common stock valued at \$75,000 for the Catalyst Acquisition.
- authorized the issuance of 371,666 shares of common stock valued at \$69,290 to employees for compensation and bonuses.

NOTE 12 - OPTIONS AND WARRANTS

On October 29, 2012, our stockholders approved the 2012 Stock Incentive Plan (the "Plan") that governs equity awards to our management, employees, directors and consultants. On November 7, 2013, our stockholders approved an amendment to the Plan which increased the total authorized amount of common stock issuable under the Plan from 3,000,000 to 6,000,000 shares.

Options

During 2015, the Company granted 91,250 options to employees to purchase shares of common stock at an exercise price of \$0.50 per share, with grant date fair values of \$0.18 to \$0.35. The options vest ratably on an annual basis over three years, and expire ten years from grant date. In 2015, 1,462,084 of these shares were cancelled. Also in 2015, options for the purchase of 900,000 shares were granted to directors of the Company at an exercise price of \$0.13 per share, with grant date fair values of \$0.13. These options vest in full one year from grant date, have a ten-year expiration, and were granted outside of the Company's 2012 Stock Plan. No options to purchase shares of Spindle common stock were granted during 2016.

The following is a summary of the status of the Company's stock options as of December 31, 2016 and 2015:

| | <i>Number of Options</i> | <i>Weighted- Average Exercise Price</i> | <i>Weighted Average Remaining Contractual Life (in years)</i> |
|----------------------------------|------------------------------|---|---|
| Outstanding at December 31, 2014 | 3,460,834 | -- | |
| Granted | 991,250 | -- | |
| Exercised | -- | -- | |
| Forfeited/Cancelled | (1,462,084) | -- | |
| Outstanding at December 31, 2015 | 2,990,000 | \$ 0.426 | 8.10 |
| Exercisable at December 31, 2015 | 1,944,167 | \$ 0.561 | 7.03 |
| Outstanding at December 31, 2015 | 2,990,000 | | |
| Granted | -- | -- | |
| Exercised | -- | -- | |
| Forfeited/Cancelled | (1,442,500) | -- | |
| Outstanding at December 31, 2016 | 1,547,500 | \$ 0.357 | 7.56 |
| Exercisable at December 31, 2016 | 1,331,666 | \$ 0.345 | 7.44 |

The estimated fair values of options granted during 2016, 2015 and 2014 were calculated using the following assumptions:

| | 2016 | 2015 | 2014 |
|-------------------------|-------------|-------------------|------------------|
| Dividend yield | -- | 0.00% | 0.00% |
| Expected volatility | -- | 94.42% to 188.60% | 76.71% to 86.26% |
| Risk free interest rate | -- | 1.43% to 1.74% | 1.49% to 1.78% |
| Expected term, in years | -- | 6.0 | 6.0 |

Warrants

On March 11, 2015, the Board of Directors approved a private placement offering (the "Offering") comprised of a unit (the "Unit"). Each Unit consists of one share of the Company's common stock and one three-year warrant to purchase one share of the Company's common stock. During the twelve months ended December 31, 2015, the Company sold 350,000 units under this offering.

In conjunction with the Stock Purchase Agreements in the third and fourth quarters of the year ended December 31, 2016 ("SPA"), the Company issued common stock purchase warrants. These warrants entitle the holder to purchase additional shares of Spindle common stock at a price of \$0.135 per share. The holder may exercise his purchase rights at any time up to the third anniversary of the agreement.

In conjunction with the Bridge Loan Agreements in December of 2016, the Company granted common stock purchase warrants that entitle the holder to purchase additional shares of Spindle at a price of \$0.135 per share. The holder may exercise his purchase rights at any time up to the third anniversary of the agreement.

The following is a summary of the status of the Company's stock warrants as of December 31, 2016:

| | <i>Number of Warrants</i> | <i>Weighted- Average Exercise Price</i> | <i>Weighted Average Remaining Contractual Life (in years)</i> |
|----------------------------------|-------------------------------|---|---|
| Outstanding at December 31, 2014 | 250,000 | | |
| Granted | 350,000 | -- | |
| Exercised | -- | -- | |
| Forfeited/Cancelled | -- | -- | |
| Outstanding at December 31, 2015 | 600,000 | \$ 0.500 | 1.85 |
| Exercisable at December 31, 2015 | 250,000 | \$ 0.500 | 1.47 |
| Outstanding at December 31, 2015 | 600,000 | | |
| Granted | 883,420 | -- | |
| Exercised | -- | -- | |
| Forfeited/Cancelled | (200,000) | -- | |
| Outstanding at December 31, 2016 | 1,283,420 | \$ 0.249 | 2.99 |
| Exercisable at December 31, 2016 | 1,183,420 | \$ 0.228 | 3.12 |

NOTE 13 - BUSINESS ACQUISITIONS

On March 20, 2013 (the "MeNetwork Closing Date"), the Company assumed certain liabilities and acquired substantially all the assets of MeNetwork used in connection with its business of developing, marketing and licensing a mobile marketing platform for use by merchants and consumers (the "MeNetwork Assets"), pursuant to an Asset Purchase Agreement dated March 1, 2013 by and between Spindle and MeNetwork (the "MeNetwork Agreement"). As consideration for the assumption of the liabilities and the acquisition of the MeNetwork Assets, the Company issued an aggregate of 2,750,000 shares of common stock to the stockholders of MeNetwork, of which 350,000 shares are being held in escrow for a period of one year from the MeNetwork Closing Date for the purposes of satisfying any indemnification claims. In addition, on October 7, 2013, the Company issued an additional 750,000 shares of common stock to Ashton Craig Page, the former director and Chief Operating Officer of MeNetwork and a former director of the Company, pursuant to the terms and conditions of the MeNetwork Agreement. On December 12, 2014, the Company, and Ashton Craig Page, in his capacity as the representative of MeNetwork and the MeNetwork Stockholders (the "Representative"), entered into an Amendment and Waiver to Asset Purchase Agreement (the "Amendment"), pursuant to which the Company agreed to issue and the Representative agreed to accept on behalf of MeNetwork and the MeNetwork Stockholders an acceleration of the issuance of up to an aggregate of 1,000,000 Earnout Shares on or before December 31, 2014 in full satisfaction of all obligations of the Company to issue the Earnout Shares pursuant to the Purchase Agreement during the Earnout Period. These shares were issued on December 23, 2014.

Yowza!! Transaction

As described in Note 1, "Organization of the Company and Significant Accounting Policies" the Company completed the Yowza!! Transaction on January 3, 2014. This transaction was accounted for as a business combination. As such, the Company has allocated the purchase price in accordance with ASC Topic 850-30 as previously described in the Company's significant accounting policies. Consideration was determined as follows:

| | Fair Value of Consideration Transferred |
|--|--|
| Cash paid to Yowza!!, net of cash acquired | \$ 500,000 |
| Fair value of Company's shares issued | 3,004,860 |
| Cash paid to extinguish debt, net of cash acquired | (13,632) |
| | <u>\$ 3,491,228</u> |

The fair value of our 1,642,000 shares issued in connection with the Yowza!! Transaction was determined to be \$1.83, which was the fair value of the shares on the closing date of the acquisition.

The Company's allocation of the purchase price is as follows:

| | | |
|---------------------------------|----|------------------|
| Net assets acquired: | | |
| Cash | \$ | 1,368 |
| Accounts receivable | | 2,928 |
| Software development costs | | 200,000 |
| Trademarks | | 10,000 |
| Net liabilities assumed: | | |
| Accounts payable | | (15,000) |
| Goodwill | | 3,291,932 |
| Total purchase price | \$ | <u>3,491,228</u> |

Catalyst Transaction

As described in Note 1, "Organization of the Company and Significant Accounting Policies" the Company completed the Catalyst Transaction on October 23, 2015. This transaction was accounted for as a purchase of assets. The fair value of our shares issued in connection with the Catalyst Transaction was determined to be \$0.25, which was the fair value of the shares on the closing date of the acquisition. The total consideration of \$75,000, which consists of the Catalyst Gateway license bundled with other contracts is reported on our balance sheet in "Other intangible assets, net."

NOTE 14 - INCOME TAXES

FASB ASC 740 requires the use of an asset and liability approach in accounting for income taxes. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates currently in effect.

FASB ASC 740 requires the reduction of deferred tax assets by a valuation allowance, if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In the Company's opinion, it is uncertain whether they will generate sufficient taxable income in the future to fully utilize the net deferred tax asset. Accordingly, a valuation allowance equal to the deferred tax asset has been recorded. The total deferred tax asset is \$5,618,625, which is calculated by multiplying a 35% estimated tax rate by the cumulative net operating loss (NOL) adjusted or the following items:

| | For the periods ended December 31, | |
|--|---|----------------|
| | 2016 | 2015 |
| Book loss for the year | \$ (9,081,857) | \$ (3,859,698) |
| Adjustments: | | |
| Amortization | -- | 33,638 |
| Impairment charges | 5,713,617 | 1,212,763 |
| Non-deductible stock compensation | 555,656 | 1,249,590 |
| Tax loss for the year | \$ (2,807,702) | \$ (1,363,707) |
| Net operating loss carryforward | 13,245,511 | 11,881,804 |
| Cumulative net operating loss carryforward | 16,053,213 | 13,245,511 |
| Estimated effective tax rate | 35% | 35% |
| Deferred tax asset | \$ 5,618,625 | \$ 4,635,929 |

Details for the last two periods follow:

| | For the period ended December 31, | |
|-----------------------|-----------------------------------|--------------|
| | 2016 | 2015 |
| Deferred tax asset | \$ 5,618,625 | \$ 4,635,929 |
| Valuation allowance | (5,618,625) | (4,635,929) |
| Current taxes payable | -- | -- |
| Income tax expense | \$ -- | \$ -- |

The Company has net operating loss carryforwards for tax purposes of approximately \$16,053,213 that begins to expire in the year 2027. The estimated corporate federal net operating loss (NOL) is presented below:

| Year | Amount |
|------|------------|
| 2016 | 16,053,213 |
| 2015 | 13,245,511 |

NOTE 15 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following table presents certain supplemental cash flow information:

| | Years ended December 31, | |
|--------------------------------|--------------------------|----------|
| | 2016 | 2015 |
| Cash paid during the year for: | | |
| Interest | \$ 1,112 | \$ 1,557 |
| Income taxes | -- | -- |

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Lease Agreements

We lease office facilities under two operating lease agreements. We are obligated to make payments under one of the lease agreements for a property we no longer occupy, and are pursuing options to reduce this commitment. Approximate future minimum lease payments for non-cancellable operating leases as of December 31, 2016, are as follows (in thousands):

| Years ended December 31, | Total |
|--------------------------|------------|
| 2017 | \$ 131,018 |
| 2018 | 152,905 |
| 2019 | 157,117 |
| 2020 | 46,052 |
| 2021 | -- |
| Thereafter | -- |
| | \$ 487,093 |

Rent expense was \$72,699 and \$70,290 in 2016 and 2015, respectively, and is included within general and administrative expense on our statements of operations.

Legal proceedings

On May 26, 2015, the Company entered into a loyalty agreement with Help Worldwide, Inc. (“HWW”) which provided that the Company would join the HWW network and become a licensed Loyalty Program Operator (“LPO”) to enable delivery of a Yowza!! Points program for consumers and merchants in the Yowza!! program. HWW was also to build a Yowza!! branded Rewards Mall for the redemption of Yowza!! Points. On March 28, 2016, a settlement agreement was signed between the Company and HWW, terminating the LPO license agreement executed in May 2015. Per the settlement agreement HWW returned 6,500,000 of the 7,000,000 shares of Spindle restricted common stock issued to HWW for the license fee. The LPO license agreement was terminated amicably and not due to default or breach by any party.

On August 4, 2016, the Company filed a complaint in the District of Arizona (the “Complaint”) against William Clark, Justin Clark and Sean Tate as individuals, and Phasive, Inc., an Arizona corporation (collectively, the “Defendants”), containing 42 Claims for Relief for, among other claims, breach of contract, breach of fiduciary duty, unfair competition, misappropriation of trade secrets, and tortious interference. The Defendants have filed a counter-claim against the Company for breach of contract, tortious interference and other claims. There is a risk that we may be unable to achieve the results we desire from such litigation, and we anticipate that these legal proceedings may continue for several years and may require significant expenditures for legal fees and other expenses, which would require us to devote our limited financial, managerial and other resources to support litigation that may be disproportionate to the anticipated recovery.

There are no other material pending legal proceedings, to which the Company or any director, officer or affiliate of the registrant, any owner of record or beneficially of more than five percent of any class of voting securities of the Company, or any associate of any such director, officer, affiliate of the registrant, or security holder is a party or any of its subsidiaries is a party or of which any of their property is the subject.

NOTE 17 - SUBSEQUENT EVENTS

From January 1, 2017 to the date of this report, the Company issued a total of 1,707,500 shares of unregistered stock to the members of our board of directors as compensation for 2016 board fees, 127,500 previously accrued shares were issued to our former interim CEO in accordance with terms of his consulting agreement and 2,096 previously accrued shares were issued as payment for legal fees incurred in 2016. We also issued 40,407 unregistered shares were issued to our former CFO as a part of his termination agreement, 167,120 shares were issued to employees for compensation and we issued 397,148 shares for cash proceeds. There were also 387,143 shares issued for consulting agreements and 2,500,000 shares were issued for the sale of Spindle assets.

Yowza!! Sale

Because of change in management in January 2017 and subsequent change in strategy, on March 3, 2017, the Company sold all the assets associated with Yowza!! for \$25,000. The assets were sold to iOT Broadband LLC, an LLC owned by Michael Kelly, a previously reported 5% shareholder of the Company’s common stock. On January 3, 2014, the Company had acquired substantially all the assets of Yowza International Inc. and assumed certain liabilities of Yowza!! for cash and stock consideration. In the subsequent periods the Company also allocated development resources to the enhancement of the Yowza!! product and capitalized expenses as internal use software.

The \$25,000 consideration received on March 3, 2017 is less than the carrying value of internal use software, domain name, and goodwill on the balance sheet as of December 31, 2016. Because of the sale on March 3, 2017, the Company has impaired the value of the Yowza!! assets to \$25,000, recording impairment for the remaining amount of carrying value effective December 31, 2016.

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427

I, Jack A. Scott, certify that:

1. I have reviewed this annual report on Form 10-K of Spindle, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 19, 2017

/s/ Jack A. Scott
Jack A. Scott
Interim Chief Executive Officer
Principal Executive Officer

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427

I, John Devlin, certify that:

1. I have reviewed this annual report on Form 10-K of Spindle, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - c. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - d. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 19, 2017

/s/ John Devlin

John Devlin
Interim Chief Financial Officer
Principal Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Spindle, Inc. (the "Company") on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack A. Scott, acting in the capacity of as the Principal Executive Officer of the Company, and I, John Devlin, acting in the capacity as the Principal Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Jack A. Scott

Jack A. Scott
Interim Chief Executive Officer
Principal Executive Officer

/s/ John Devlin

John Devlin
Interim Chief Financial Officer
Principal Financial Officer

April 19, 2017