

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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: 0-53944

VIRTUAL PIGGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

35-2327649

(IRS Employer
Identification No.)

1221 Hermosa Avenue, Suite 210
Hermosa Beach, CA 90254

(Address of principal executive offices) (Zip Code)

(310) 853-1950

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 119,117,626 shares of common stock outstanding at May 8, 2015.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Virtual Piggy, Inc.

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Virtual Piggy, Inc.
Balance Sheets

	<u>March 31, 2015</u> (unaudited)	<u>December 31, 2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,455,824	\$ 1,652,392
Accounts receivable	7,550	7,607
Prepaid expenses	<u>326,539</u>	<u>591,929</u>
TOTAL CURRENT ASSETS	<u>1,789,913</u>	<u>2,251,928</u>
PROPERTY AND EQUIPMENT		
Computer equipment	112,958	109,978
Furniture and fixtures	79,634	79,634
Leasehold improvements	<u>81,659</u>	<u>81,659</u>
	274,251	271,271
Less: accumulated depreciation	<u>(110,727)</u>	<u>(91,742)</u>
	<u>163,524</u>	<u>179,529</u>
OTHER ASSETS		
Deposit	39,230	46,483
Patents and trademarks, net of accumulated amortization of \$83,772 and \$75,292	<u>655,791</u>	<u>636,230</u>
	<u>695,021</u>	<u>682,713</u>
TOTAL ASSETS	<u>\$ 2,648,458</u>	<u>\$ 3,114,170</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 888,989	\$ 829,372
Deferred revenue	7,892	2,685
Preferred stock dividend liability	988,254	723,649
Notes payable	<u>2,000,000</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>3,885,135</u>	<u>1,555,706</u>
CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, \$.0001 par value; 2,000,000 preferred shares authorized; 195,000 preferred shares Series A authorized; 108,600 shares issued and outstanding at March 31, 2015 and December 31, 2014	11	11
Preferred stock, \$.0001 par value; 2,000,000 preferred shares authorized; 222,222 preferred shares Series B authorized; 28,378 shares issued and outstanding at March 31, 2015 and December 31, 2014	3	3
Common stock, \$.0001 par value; 230,000,000 shares authorized; 119,117,626 shares issued and outstanding at March 31, 2015 and December 31, 2014	11,912	11,912
Additional paid in capital	53,992,499	53,458,324
Accumulated deficit	(55,503,982)	(52,060,191)
Cumulative translation adjustment	<u>262,880</u>	<u>148,405</u>
STOCKHOLDERS' EQUITY (DEFICIT)	<u>(1,236,677)</u>	<u>1,558,464</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 2,648,458</u>	<u>\$ 3,114,170</u>

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
Statements of Operations
For the Three Months Ended March 31, 2015 and 2014
(Unaudited)

	For the three months Ended March 31,	
	<u>2015</u>	<u>2014</u>
SALES	\$ 4,109	\$ 425
OPERATING EXPENSES		
Sales and marketing	889,237	1,197,412
Product development	590,870	885,974
Integration and customer support	61,838	187,039
General and administrative	1,492,252	1,217,303
Strategic consulting	135,000	-
Total operating expenses	<u>3,169,197</u>	<u>3,487,728</u>
NET OPERATING LOSS	(3,165,088)	(3,487,303)
OTHER INCOME (EXPENSE)		
Interest income	149	1,502
Interest expense	(14,247)	(94,280)
Change in fair value of embedded derivative liability	-	(2,185,375)
	<u>(14,098)</u>	<u>(2,278,153)</u>
NET LOSS	(3,179,186)	(5,765,456)
Less: Deemed dividend distributions	-	(2,366,419)
Less: Accrued preferred dividends	(264,605)	-
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	<u>\$ (3,443,791)</u>	<u>\$ (8,131,875)</u>
BASIC AND DILUTED NET LOSS PER COMMON SHARE	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>119,117,626</u>	<u>114,818,293</u>

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
Statements of Comprehensive Loss
For the Three Months Ended March 31, 2015 and 2014
(Unaudited)

	For the three months Ended March 31,	
	<u>2015</u>	<u>2014</u>
NET LOSS	\$ (3,179,186)	\$ (5,765,456)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign Currency Translation Adjustments, net of tax	114,475	(17,580)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), net of tax	<u>114,475</u>	<u>(17,580)</u>
COMPREHENSIVE LOSS	<u>\$ (3,064,711)</u>	<u>\$ (5,783,036)</u>

See notes to accompanying notes to these financial statements.

Virtual Piggy, Inc.
Statement of Changes in Stockholders' Equity (Deficit)
For the Periods from January 1, 2015 to March 31, 2015
(Unaudited)

	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Cumulative Translation Adjustment	Total
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Balance December 31, 2014	108,600	\$ 11	28,378	\$ 3	119,117,626	\$ 11,912	\$53,458,324	\$ (52,060,191)	\$ 148,405	\$ 1,558,464
Revaluation of options and warrants	-	-	-	-	-	-	228,743	-	-	228,743
Issuance of options for services	-	-	-	-	-	-	190,364	-	-	190,364
Issuance of equity for services	-	-	-	-	-	-	115,068	-	-	115,068
Accrued preferred dividend	-	-	-	-	-	-	-	(264,605)	-	(264,605)
Net loss	-	-	-	-	-	-	-	(3,179,186)	0	(3,179,186)
Cumulative translation adjustment	-	-	-	-	-	-	-	-	114,475	114,475
Balance March 31, 2015	<u>108,600</u>	<u>\$ 11</u>	<u>28,378</u>	<u>\$ 3</u>	<u>119,117,626</u>	<u>11,912</u>	<u>53,992,499</u>	<u>(55,503,982)</u>	<u>262,880</u>	<u>(1,236,677)</u>

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
 Statements of Cash Flows
 For the Three Months Ended March 31, 2015 and 2014
 (Unaudited)

	<u>For the Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (3,179,186)	\$ (5,765,456)
Adjustments to reconcile net loss to net cash used in operating activities		
Fair value of warrants issued in exchange for services	-	-
Fair value of options issued in exchange for services	190,364	288,551
Fair value of stock issued in exchange for services	115,068	-
Revaluation of options and warrants	228,743	-
Change in fair value of embedded derivative liability	-	2,185,375
Accretion of discount on notes payable	-	86,087
Depreciation and amortization	28,719	18,518
Loss on abandonment of patents and disposal of fixed assets	895	8,109
(Increase) decrease in assets		
Accounts receivable	57	(285)
Prepaid expenses	265,390	(55,293)
Deposits	7,253	(228,831)
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and litigation settlement	59,617	(553,194)
Deferred revenue	5,207	-
Net cash used in operating activities	<u>(2,277,873)</u>	<u>(4,016,419)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(5,129)	(51,751)
Patent and trademark costs	(28,041)	(54,624)
Net cash used in investing activities	<u>(33,170)</u>	<u>(106,375)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	2,000,000	-
Repayment of note payable	-	(1,000,000)
Proceeds from issuance of preferred stock and warrants	-	5,045,000
Proceeds from exercise of options and warrants	-	100,000
Proceeds from exercise of warrants	-	2,521,143
Stock issuance costs	-	(170,165)
Net cash provided by financing activities	<u>2,000,000</u>	<u>6,495,978</u>
EFFECT OF EXCHANGE RATE ON CASH	<u>114,475</u>	<u>(17,580)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(196,568)	2,355,604
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>1,652,392</u>	<u>1,752,461</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 1,455,824</u>	<u>\$ 4,108,065</u>
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Interest paid	\$ -	\$ 8,193
Fair value of beneficial conversion value as discount against Preferred Stock	\$ -	\$ 1,648,825
Fair value of warrant liability as discount against Preferred Stock	\$ -	\$ 1,547,925
Accretion of discount on preferred stock as deemed distribution	\$ -	\$ 1,648,825
Deemed dividend distribution in conjunction with warrant exchange	\$ -	\$ 717,594
Accrued preferred dividend	\$ 264,605	\$ -

See accompanying notes to these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

Virtual Piggy, Inc. (the “Company”) was incorporated in the state of Delaware on February 11, 2008. Virtual Piggy is a technology company that delivers an online ecommerce solution for the family. Its system allows parents and their children to manage, allocate funds and track their expenditures, savings and charitable giving online. Its system is designed to allow the child to transact online without a credit card by gaining the parent’s permission ahead of time and allowing the parent to set up the rules of use and authorized spending limits. The Company’s principal office is located in Hermosa Beach, California.

Virtual Piggy’s technology, branded as “Oink,” enables online businesses to interact and transact with the “Under 18” market in a manner consistent with the Children’s Online Privacy Protection Act (“COPPA”) and other similar international children’s privacy laws. Oink was launched in the US in 2012 and in the European market in 2013, and now has the capability to offer and deliver gift cards.

The Company secures agreements with merchants, retail and gaming e-commerce platforms and payment processors, which allows it to offer its Oink service to its user base. A number of retailers and gaming companies are using Oink with their e-commerce systems and the Company is in the process of integrating the other signed retailers and gaming companies. The Company is continuing to add merchants which provides more opportunities for its registered systems users to purchase products online.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as amended, as filed with the Securities and Exchange Commission (the “SEC”). Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015.

The Company’s activities are subject to significant risks and uncertainties, including failing to secure additional funding to continue operations and operationalize the Company’s current technology before another company develops similar technology to compete with the Company.

It is management’s opinion that all adjustments necessary for the fair statement of the results for interim periods have been made, and disclosures have been made of so as to not make such financial information misleading.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 from these estimates.

Comprehensive Income

The Company follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) 220 in reporting comprehensive income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The Company has one item of other comprehensive income, consisting of a foreign translation adjustment.

Fair Value of Financial Instruments

The Company’s financial instruments consist of accounts receivable, accounts payable and accrued expenses. The carrying value of accounts receivable, accounts payable and accrued expenses approximate their fair value because of their short maturities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company follows FASB ASC 820, *Fair Value Measurements and Disclosures*, and applies it to all assets and liabilities that are being measured and reported on a fair value basis. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Foreign Currency Translation

The functional currency of operations outside the U.S. is British Pounds.

Concentration of Credit Risk Involving Cash

The Company may have deposits with a financial institution which at times exceed Federal Deposit Insurance Corporation (“FDIC”) coverage. The Company has not experienced any losses from maintaining cash accounts in excess of federally insured limits.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and certificates of deposit and commercial paper with original maturities of 90 days or less to be cash or cash equivalents.

Property and Equipment

Property, equipment and leasehold improvements are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs of property are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the costs and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations. The cost of leasehold improvements is amortized over the lesser length of the related leases or the estimated useful lives of the assets. Depreciation of property and equipment was \$20,239 and \$8,389 for the three months ended March 31, 2015 and 2014, respectively, and is included in general and administrative expenses.

The Company’s depreciation and amortization policies on property and equipment are as follows:

	<u>Useful life (in years)</u>
Computer equipment	3 - 5
Furniture and fixtures	7
Leasehold improvements	Term of lease

Patents and Trademarks

The Company has three issued patents with the United States Patent and Trademark Office (“USPTO”), entitled “System and Method for Verifying the Age of an Internet User,” “System and Method for Virtual Piggy Bank Wish-List,” and “System and Method for Virtual Piggy Bank.” The Company has filed for one provisional U.S. patent application, as well as twelve non-provisional U.S. patent applications, four of which are pending, three of which have been allowed, and five of which have been abandoned. Additionally, the Company has been granted two patents in Germany, entitled “Virtual Piggy Bank” and “Parent Match.” The Company also has patents pending in Australia, Brazil, Canada (“Parent Match” has been allowed), Europe, and the Republic of Korea under the Patent Cooperation Treaty (“PCT”). Costs associated with the registration and legal defense of the patents have been capitalized and are amortized on a straight-line basis over the estimated lives of the patents.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets in accordance with FASB ASC 360 “Property, Plant, and Equipment.” The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets are measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset, undiscounted and without interest or independent appraisals. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the assets.

Revenue Recognition

In accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) No. 104, *Revenue Recognition* (Codified in FASB ASC 605), the Company will recognize revenue when (i) persuasive evidence of a customer or distributor arrangement exists or acceptance occurs, (ii) a retailer, distributor or wholesaler receives the goods, (iii) the price is fixed or determinable, and (iv) collectability of the sales revenues is reasonably assured. Subject to these criteria, the Company will generally recognize revenue at the time of the sale of the associated product.

Income Taxes

The Company follows FASB ASC 740 when accounting for income taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for temporary differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Tax years from 2011 through 2014 remain subject to examination by major tax jurisdictions.

Stock-based Payments

The Company accounts for stock-based compensation under the provisions of FASB ASC 718, *Compensation—Stock Compensation* which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method. The Company accounts for stock-based compensation awards to non-employees in accordance with FASB ASC 505 -50, *Equity-Based Payments to Non-Employees (“ASC 505-50”)*. Under ASC 505-50, the Company determines the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. All issuances of stock options or other equity instruments to non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued. Any stock options issued to non-employees are recorded as an expense and additional paid-in capital in stockholders’ equity over the applicable service periods.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$109,549 and \$53,628 for the three months ended March 31, 2015 and 2014, respectively. These costs are included in sales and marketing expenses.

Product Development Costs

In accordance with FASB ASC 730, research and development costs are expensed when incurred. Research and development costs were \$590,870 and \$885,974 for the three months ended March 31, 2015 and 2014, respectively.

Loss Per Share

The Company follows FASB ASC 260 when reporting Earnings Per Share resulting in the presentation of basic and diluted earnings per share. Because the Company reported a net loss for the each of the quarters presented, common stock equivalents, including preferred stock, stock options and warrants were anti-dilutive; therefore, the amounts reported for basic and diluted loss per share were the same.

Start-up Costs

In accordance with FASB ASC 720, start-up costs are expensed as incurred.

Segment Information

The Company is organized and operates as one operating segment. In accordance with FASB ASC 280, *Segment Reporting*, the chief operating decision-maker has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company subject to Board approval. Since the Company operates in one segment and provides one group of similar products, all financial segment and product line information required by FASB ASC 280 can be found in the consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this Update provide guidance about management's responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. Management is assessing the impact of the adoption to the financial statements.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified in order for them to be in conformity with the 2015 presentation.

NOTE 2 – MANAGEMENT PLANS

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses and experienced negative cash flow from operations since inception. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Since inception, the Company has focused on developing and implementing its business plan. The Company believes that its existing cash resources will not be sufficient to sustain operations during the next twelve months. The Company currently needs to generate revenue in order to sustain its operations. In the event that the Company cannot generate sufficient revenue to sustain its operations, the Company will need to reduce expenses or obtain financing through the sale of debt and/or equity securities. The issuance of additional equity would result in dilution to existing shareholders. If the Company is unable to obtain additional funds when they are needed or if such funds cannot be obtained on terms acceptable to the Company, the Company would likely be unable to execute upon the business plan or pay costs and expenses as they are incurred, which would have a material, adverse effect on the business, financial condition and results of operations.

The Company's current monetization model is to derive a percentage of all revenues generated by online merchants using the Oink service. Merchants are billed at the end of each month for all transactions that have been processed by the Company on their behalf in the prior month. As the merchant base and consumer base grows, and as the trend to higher online spending levels continues, the Company expects to generate additional revenue to help support operations.

As of May 8, 2015, the Company had a cash position of approximately \$1.6 million. Based upon the current cash position, management believes the Company has the capability to finance its operations through June 2015.

NOTE 3 – PATENTS AND TRADEMARKS

The Company continues to apply for patents and purchased the Oink trademark in November 2013. Accordingly, costs associated with the registration of the patents have been capitalized and are amortized on a straight-line basis over the estimated lives of the patents (20 years). The trademark is also being amortized on a straight-line basis over its estimated useful life of 20 years. At March 31, 2015 and December 31, 2014, capitalized patent and trademark costs, net of accumulated amortization, were \$655,791 and \$636,230. Amortization expense for patents and trademarks was \$8,480 and \$10,129 for the three months ended March 31, 2015 and 2014, respectively.

NOTE 4 – NOTES PAYABLE

On December 27, 2013, the Company entered into two identical agreements with two stockholders that each include a note payable in the amount of \$500,000 and two-year warrants to purchase 37,500 shares of the Company's common stock at \$0.01 and two-year warrants to purchase 50,000 shares of the Company's common stock at \$1.00 per share. The notes bore interest at 10% per annum and were payable upon the earlier of:

- a. 5 days after the sale of the Company's securities in one transaction or series of related transactions, which sale resulted in gross proceeds to the Company of at least \$3 million;
- b. Upon (i) the sale or other disposition of all or substantially all of the Company's assets or (ii) the acquisition of the Company by another entity by means of any transaction or series of related transactions to which the Company is a party other than a transaction or series of transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction continue to retain, as a result of shares in the Company held by such holders prior to such transaction, at least 50% of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such transaction or series of transactions; or
- c. February 28, 2014.

The warrants were valued at \$92,470, fair value, using the Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 22.2%, risk free interest rate of .4% and expected option life of 2 years. The warrant values were treated as a discount to the value of the note payable in accordance with FASB ASC 835-30-25, *Recognition* and were accreted over the term of the note payable for financial statement purposes. These notes were repaid in full in January 2014 and therefore the remaining unamortized discount was fully accreted.

On March 6, 2015, the Company, pursuant to a Securities Purchase Agreement (the "Purchase Agreement"), issued \$2,000,000 aggregate principal amount of its 10% Secured Convertible Promissory Notes due March 5, 2016 (the "Notes") to certain accredited investors (the "Investors").

The Notes are convertible by the holders, at any time, into shares of the Company's Series B Preferred Stock at a conversion price of \$90.00 per share, subject to adjustment for stock splits, stock dividends and similar transactions with respect to the Series B Preferred Stock only. Each share of Series B Preferred Stock is currently convertible into 100 shares of the Company's common stock at a current conversion price of \$0.90 per share, subject to anti-dilution adjustment as described in the Certificate of Designation of the Series B Preferred Stock. In addition, pursuant to the terms of a Security Agreement entered into on March 6, 2015 by and among the Company, the Investors and a collateral agent acting on behalf of the Investors (the "Security Agreement"), the Notes are secured by a lien against substantially all of the Company's business assets. Pursuant to the Purchase Agreement, the Company also granted piggyback registration rights to the holders of the Series B Preferred Stock upon a conversion of the Notes.

The Notes are recorded as a current liability as of March 31, 2015. Interest accrued on the notes during the quarter ended March 31, 2015 was \$14,247.

During the three months ended March 31, 2015 and 2014, \$14,247 and \$86,807 was recorded as interest expense.

NOTE 5 – INCOME TAXES

Income tax expense was \$0 for the three months ended March 31, 2015 and 2014.

As of December 31, 2014, the Company had net operating loss carry forwards approximating \$48 million.

As of January 1, 2015, the Company had no unrecognized tax benefits, and accordingly, the Company did not recognize interest or penalties during 2014 related to unrecognized tax benefits. There has been no change in unrecognized tax benefits during the three months ended March 31, 2015, and there was no accrual for uncertain tax positions as of March 31, 2015. Tax years 2011 through 2014 remain subject to examination by major tax jurisdictions.

There is no income tax benefit for the losses for the three months ended March 31, 2015 and 2014, since management has determined that the realization of the net tax deferred asset is not assured and has created a valuation allowance for the entire amount of such benefits.

NOTE 6 – LITIGATION

On April 10, 2014, the Company was named in a law suit in superior court for the State of California filed by a former employee alleging wrongful termination and seeking monetary damages and legal fees. During the three months ended September 30, 2014, the matter was settled in mediation.

NOTE 7 – CONVERTIBLE PREFERRED STOCK

Series A Preferred Stock

In January 2014, the Company, pursuant to a Securities Purchase Agreement (the "Series A Purchase Agreement"), issued in a private placement to certain accredited investors, 50,450 shares of the Company's Series A Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") at an original issue price of \$100 per share (the "Original Series A Issue Price") and two-year warrants to purchase 5,045,000 shares of the Company's common stock at an exercise price of \$1.00 per share (the "Series A Warrants"), for an aggregate purchase price of \$5,045,000. Pursuant to the Series A Purchase Agreement, the Company also granted piggyback registration rights to the holders of the Series A Preferred Stock and Series A Warrants. The Series A Purchase Agreement provides that the holders of the Series A Preferred Stock shall be entitled to nominate two directors of the Company. Dividends accrue at a rate of 8% and are cumulative. The Company had incurred and capitalized approximately \$141,000 of costs associated with this offering, which were charged to additional paid in capital when the transaction was consummated.

Virtual Piggy, Inc.
Notes to the Financial Statements

In accordance with FASB ASC 480 and 815, the Series A Preferred Stock has been classified as permanent equity and was valued at \$3,396,175, net of the beneficial conversion feature of \$1,648,825, at January 27, 2014.

The conversion feature of the Series A Preferred Stock is an embedded derivative, which is classified as a liability in accordance with FASB ASC 815 and was valued in accordance with FASB ASC 470 as a beneficial conversion feature at a fair market value of \$1,648,825 at January 27, 2014, and \$0 at March 31, 2015. This was classified as an embedded derivative liability and a discount to Series A Preferred Stock. Since the Series A Preferred Stock can be converted at any time, the full amount of the discount was accreted and reflected as a deemed distribution.

The Series A Warrants associated with the Series A Preferred Stock were also classified as equity, in accordance with FASB ASC 480-10-25. Therefore it is not necessary to bifurcate the Series A Warrants from the Series A Preferred Stock.

The Series A Preferred Stock has a preference in liquidation equal to two times the Original Series A Issue Price to be paid out of assets available for distribution prior to holders of common stock and thereafter participates with the holders of common stock in any remaining proceeds subject to an aggregate cap of 2.5 times the Original Series A Issue Price. The Series A Preferred Stockholders may cast the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred Stock can be converted. The Series A Preferred Stock also contains customary approval rights with respect to certain matters.

The conversion price of the Series A Preferred Stock is subject to anti-dilution adjustment and was subsequently reduced from \$1.00 to \$0.90 per share, resulting from the issuance by the Company of Series B Preferred Stock with a conversion price of \$0.90 per share.

The Series A Preferred Stock is subject to mandatory conversion if certain registration or related requirements are satisfied and the average closing price of the Company's common stock exceeds 2.5 times the conversion price over a period of twenty consecutive trading days.

On April 30, 2014, the Company sold, in a private placement to certain accredited investors, an additional 58,150 shares of Series A Preferred Stock and Series A Warrants to purchase 5,815,000 shares of the Company's common stock for an aggregate purchase price of \$5,815,000. In accordance with FASB ASC 480 and 815, the additional Series A Preferred Stock has been classified as permanent equity and was valued at \$2,326,000, net of the beneficial conversion feature of \$3,489,000, at April 30, 2014. The Company had incurred and capitalized approximately \$6,000 of costs associated with this offering, which were charged to additional paid in capital when the transaction was consummated.

The conversion feature of the additional Series A Preferred Stock is an embedded derivative, which is classified as a liability in accordance with FASB ASC 815 and was valued in accordance with FASB ASC 470 as a beneficial conversion feature at a fair market value of \$3,489,000 at April 30, 2014 and \$0 at March 31, 2015. This was classified as an embedded derivative liability and a discount to Series A Preferred Stock. Since the Series A Preferred Stock can be converted at any time, the full amount of the discount was accreted and reflected as a deemed distribution.

Series B Preferred Stock

In October 2014, the Company, pursuant to a Securities Purchase Agreement (the "Series B Purchase Agreement"), issued in a private placement to certain accredited investors, 28,378 shares of the Company's Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock") at an original issue price of \$90 per share (the "Original Series B Issue Price") and two-year warrants to purchase 2,837,800 shares of the Company's common stock at an exercise price of \$1.00 per share (the "Series B Warrants"), for an aggregate purchase price of \$2,554,020. Pursuant to the Series B Purchase Agreement, the Company also granted piggyback registration rights to the holders of the Series B Preferred Stock and Series B Warrants. Dividends accrue at a rate of 8% and are cumulative. The Company had incurred and capitalized approximately \$24,029 of costs associated with this offering, which were charged to additional paid in capital when the transaction was consummated.

In accordance with FASB ASC 480 and 815, the Series B Preferred Stock has been classified as permanent equity and was valued at \$2,178,179, net of the beneficial conversion feature of \$375,841, at October 30, 2014.

The conversion feature of the Series B Preferred Stock is an embedded derivative, which is classified as a liability in accordance with FASB ASC 815 and was valued in accordance with FASB ASC 470 as a beneficial conversion feature at a fair market value of \$375,841 at October 30, 2014, and \$0 at March 31, 2015. This was classified as an embedded derivative liability and a discount to Series B Preferred Stock. Since the Series B Preferred Stock can be converted at any time, the full amount of the discount was accreted and reflected as a deemed distribution.

Because the Series B Preferred Stock can be converted at any time, the embedded derivative is classified as a current liability.

The Series B Warrants associated with the Series B Preferred Stock were also classified as equity, in accordance with FASB ASC 480-10-25. Therefore it is not necessary to bifurcate the Series B Warrants from the Series B Preferred Stock.

The Series B Preferred Stock is pari passu with the Series A Preferred Stock and has a preference in liquidation equal to two times the Original Issue Price to be paid out of assets available for distribution prior to holders of common stock and thereafter participates with the holders of common stock in any remaining proceeds subject to an aggregate cap of 2.5 times the Original Issue Price. The Series B Preferred Stockholders may cast the number of votes equal to the number of whole shares of common stock into which the shares of Series B Preferred Stock can be converted. The Series B Preferred Stock also contains customary approval rights with respect to certain matters.

The conversion price of the Series B Preferred Stock is currently \$0.90 per share, subject to anti-dilution adjustment. The Series B Preferred Stock is subject to mandatory conversion if certain registration or related requirements are satisfied and the average closing price of the Company's common stock exceeds 2.5 times the conversion price over a period of twenty consecutive trading days.

As of March 31, 2015, the value of the cumulative 8% dividends for all preferred stock was \$988,254. Such dividends will be paid when and if declared payable by the Company's board of directors or upon the occurrence of certain liquidation events. In accordance with FASB ASC 260-10-45-11, the Company has recorded these accrued dividends as a non-current liability.

NOTE 8 – STOCKHOLDERS' EQUITY

Private Placements of Securities

In February 2014, options and warrants to purchase 50,000 shares of the Company's common stock were exercised at an exercise price of \$0.50 per share for net proceeds to the Company of \$25,000.

In March 2014, options and warrants to purchase 100,000 shares of the Company's common stock were exercised at an average exercise price of \$0.75 per share for net proceeds to the Company of \$75,000.

Exchange of Warrants and Deemed Dividend

Effective February 7, 2014, when the market price of our common stock was \$1.18 per share, the Company completed an exchange offering with certain investors in our 2011 to 2012 Private Placements to exercise their current warrants at \$0.50 per share and receive a new warrant which would be convertible into the same number of common shares as the original warrant. The new warrant has an exercise price of \$1.00. The Company has recognized a deemed dividend of \$717,594 in the Statement of Operations for the year ended December 31, 2014, attributable to the incremental fair value resulting from the modification of these warrants. The fair value of the new warrants was valued using the Black-Scholes option pricing model to calculate the grant-date fair value of the warrants, with the following assumptions: no dividend yield, expected volatility of 143.2%, risk free interest rate of 0.30% and expected option life approximating two years. The warrants expire two years from the date of issuance. Pursuant to the offering, the Company received aggregate cash consideration of \$2,521,143 from exercised warrants to purchase 5,042,287 shares of Company common stock.

Extension of Warrants and Options

In February 2014, the Company extended the term of warrants previously granted to two of its executive officers, which included 1,142,588 warrants exercisable at \$0.04 per share and 100,000 warrants exercisable at \$0.75 per share, for an additional two years. The increase in fair value of this term extension was \$28,663 which was expensed during the period. The Company used the Black-Scholes option pricing model to calculate the increase in fair value, with the following assumptions: no dividend yield, expected volatility of 89.3% to 89.5%, risk free interest rate of 0.33%, and expected warrant life of 2 years.

In February 2015, the Board of Directors of the Company approved amendments extending the term of outstanding warrants to purchase in the aggregate 3,877,970 shares of common stock of the Company at exercise prices ranging from \$0.01 per share to \$1.00 per share. These warrants were scheduled to expire at various dates during 2015 and were each extended for an additional one year period from the applicable current expiration date, with the new expiration dates ranging from February 23, 2016 to December 28, 2016. The increase in fair value of this term extension was \$219,051 which was expensed during the period. The Company used the Black-Scholes option pricing model to calculate the increase in fair value, with the following assumptions for the extended warrants: no dividend yield, expected volatility of 95.1%, risk free interest rate of 0.33%, and expected warrant life of 1.28 years.

In February 2015, the Company extended options previously granted to two of its executive officers, which included 3,500,000 options exercisable at \$0.04 per share. The increase in fair value of this term extension was \$9,692 which was expensed during the period. The Company used the Black-Scholes option pricing model to calculate the increase in fair value after the extension, with the following assumptions: no dividend yield, expected volatility of 96.4%, risk free interest rate of 0.64%, and expected option life of 2 years.

Issuance of Restricted Shares

In November, 2014, one of the Company's executive officers voluntarily terminated his option grant of 1,000,000 shares. The Company issued to such executive a replacement grant of 2,000,000 shares of restricted stock which vest annually over a three year period pursuant to the Company's 2013 Equity Incentive Plan. The shares were valued at the closing stock price on the date of issuance which was \$0.70, valuing the shares at \$1.4 million, fair value, which are being expensed over the vesting term. The expense recorded for the three months ended March 31, 2015 was \$115,068.

NOTE 9 - STOCK OPTIONS AND WARRANTS

During 2008, the Board of Directors ("Board") of the Company adopted the 2008 Equity Incentive Plan ("2008 Plan") that was approved by the shareholders. Under the 2008 Plan, the Company is authorized to grant options to purchase up to 25,000,000 shares of common stock to any officer, other employee or director of, or any consultant or other independent contractor who provides services to the Company. The 2008 Plan is intended to permit stock options granted to employees under the 2008 Plan to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended ("Incentive Stock Options"). All options granted under the 2008 Plan, which are not intended to qualify as Incentive Stock Options are deemed to be non-qualified options ("Non-Statutory Stock Options"). As of March 31, 2015, options to purchase 13,446,662 shares of common stock have been issued and are unexercised, and 1,036,671 shares are available for grants under the 2008 Plan.

During 2013, the Board adopted the 2013 Equity Incentive Plan ("2013 Plan"), which was approved by stockholders at the 2013 annual meeting of stockholders. Under the 2013 Plan, the Company is authorized to grant awards of stock options, restricted stock, restricted stock units and other stock-based awards of up to an aggregate of 5,000,000 shares of common stock to any officer, employee, director or consultant. The 2013 Plan is intended to permit stock options granted to employees under the 2013 Plan to qualify as Incentive Stock Options. All options granted under the 2013 Plan, which are not intended to qualify as Incentive Stock Options are deemed to be Non-Statutory Stock Options. As of March 31, 2015, under the 2013 Plan grants of restricted stock and options to purchase 4,585,832 shares of common stock have been issued and are unvested or unexercised, and 414,168 shares of common stock remain available for grants under the 2013 Plan.

The 2008 Plan and 2013 Plan are administered by the Board or its compensation committee, which determines the persons to whom awards will be granted, the number of awards to be granted, and the specific terms of each grant, including the vesting thereof, subject to the terms of the applicable Plan.

In connection with Incentive Stock Options, the exercise price of each option may not be less than 100% of the fair market value of the common stock on the date of the grant (or 110% of the fair market value in the case of a grantee holding more than 10% of the outstanding stock of the Company).

Prior to January 1, 2014, volatility in all instances presented is the Company's estimate of volatility that is based on the volatility of other public companies that are in closely related industries to the Company. Beginning January 1, 2014, volatility in all instances presented is the Company's estimate of volatility that is based on the historical volatility of the Company's stock price.

Virtual Piggy, Inc.
Notes to Financial Statements

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted during the three months ended March 31, 2015:

Risk-free interest rate	1.53%
Expected volatility	94%
Expected life (in years)	5.0
Dividend yield	0%
Weighted-average estimated fair value of options granted during the period	\$0.34

The following table summarizes the activities for our stock options for the three months ended March 31, 2015:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's) (1)
Balance as of December 31, 2014	16,670,827	\$ 0.78		
Granted	910,000	\$ 0.48		
Exercised	-	\$ -		
Forfeited/canceled	(516,670)	\$ 1.06		
Expired	(451,663)	\$ 1.58		
Balance as of March 31, 2015	16,612,494	\$ 0.73	2.5	\$ 1,085
Exercisable as of March 31, 2015	12,899,979	\$ 0.67	2.0	\$ 1,085
Exercisable as of March 31, 2015 and expected to vest thereafter	16,612,494	\$ 0.73	2.5	\$ 1,085

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$0.35 for our common stock on March 31, 2015.

This table excludes the issuance of 2,000,000 shares of restricted stock.

During the three months ended March 31, 2015, the weighted average fair value of stock options granted during the period was \$310,406. The fair value of stock options is expensed over the vesting term in accordance with the terms of the related stock option agreements.

For the three months ended March 31, 2015 and 2014, the Company expensed \$305,432 and \$288,551, respectively relative to the fair value of stock options granted.

As of March 31, 2015, there was \$1,277,457 of unrecognized compensation cost related to outstanding stock options. This amount is expected to be recognized over a weighted-average period of 2.4 years. To the extent the actual forfeiture rate is different from what we have estimated, stock-based compensation related to these awards will be different from our expectations.

Virtual Piggy, Inc.
Notes to Financial Statements

The following table summarizes the activities of our unvested stock options for the three months ended March 31, 2015:

	Unvested Stock Options				Weighted Average Remaining Amortization Period (Years)
	Number of Awards	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value		
Unvested stock options at December 31, 2014	4,663,767	\$ 0.98	\$ 0.40		
Granted	910,000	\$ 0.48	\$ 0.34		
Cancelled/Forfeited	(425,004)	\$ 0.96	\$ 0.34		
Expired	-	-	-		
Vested	(1,436,248)	\$ 0.78	\$ 0.26		
Unvested stock options at March 31, 2015	<u>3,712,515</u>	\$ 0.93	\$ 0.45		2.17

The following table summarizes the activities for our warrants for the three months ended March 31, 2015:

	Warrants Outstanding			
	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's) (1)
Balance as of December 31, 2014	26,631,410	\$ 1.01		
Granted	-	-		
Exercised	-	-		
Forfeited/canceled	-	-		
Expired	(515,714)	\$ 0.50		
Balance as of March 31, 2015	<u>26,115,696</u>	\$ 1.02	1.1	\$ 380
Exercisable as of March 31, 2015 and expected to vest thereafter	26,115,696	\$ 1.02	1.1	\$ 380

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying warrants and the closing stock price of \$0.35 for our common stock on March 31, 2015.

All warrants were vested on the date of grant.

NOTE 10 - OPERATING LEASES

Rent expense was \$156,677 and \$138,843 for the three months ended March 31, 2015 and 2014, respectively. At March 31, 2015, the Company was obligated under various non-cancelable operating lease arrangements for property as follows:

2015		\$ 65,864
2016		52,701
		<u>\$ 118,565</u>

NOTE 11 – SUBSEQUENT EVENTS

Effective April 20, 2015, in an effort to conserve cash on a short-term basis, the Company's Board of Directors elected to defer paying certain executive officer salary amounts until the earliest of (i) a change of control of the Company, (ii) a bankruptcy filing by the Company, (iii) termination of the executive officer's employment or (iv) such other time as the Board determines.

Virtual Piggy, Inc.
Notes to Financial Statements

In May 2015, the Company issued an additional \$940,000 aggregate principal amount of its 10% Secured Convertible Promissory Notes due March 5, 2016 Notes to certain accredited investors.

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

Cautionary Statements Regarding Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included or incorporated by reference in this quarterly report on Form 10-Q, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expects," "intends," "plans," "projects," "estimates," "anticipates," or "believes" or the negative thereof or any variation thereon or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to: our ability to raise additional capital, the absence of any operating history or revenue, our ability to attract and retain qualified personnel, our dependence on third party developers who we cannot control, our ability to develop and introduce a new service to the market in a timely manner, market acceptance of our services, our limited experience in a relatively new industry, the ability to successfully develop licensing programs and generate business, rapid technological change in relevant markets, unexpected network interruptions or security breaches, changes in demand for current and future intellectual property rights, legislative, regulatory and competitive developments, intense competition with larger companies, general economic conditions, as well as other factors set forth under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, as amended, filed with the Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Except as required by law, we assume no duty to update or revise our forward-looking statements.

Overview

Virtual Piggy, Inc. ("the Company") was incorporated in the state of Delaware on February 11, 2008. Oink from Virtual Piggy is a family wallet and shopping application that provides a safe and secure payment solution for the family. Oink is designed to provide efficiency and security for online and mobile payments, and is expanding to handle in store payments. Oink is in operational use in the US, Canada, UK and soon to be other parts of Europe. Oink functions as a digital wallet allowing payments to be made by all family members while providing the ability for parents to allocate and monitor funds and spending. Key benefits to the consumer of the Oink service include payment security, the payment consent and the transparency provided.

The Oink product enables online businesses to interact and transact with the "Under 18" market in a manner consistent with the Children's Online Privacy Protection Act ("COPPA") and other similar international children's privacy laws. Oink was launched in the US in 2012 and was launched in the European market in 2013.

We secure agreements with a variety of businesses including merchants, gaming publishers, e-commerce platforms, payment aggregators, and payment processors to provide Oink's services. We expect to see growth in both the user base and the engagement level throughout 2015, as we go live with several major digital goods providers and as we release our new offers functionality that will drive affiliate marketing revenue for the Company. We have affiliate agreements with over 200 merchants in the US market. In 2014, we embarked on a program to build our channel partners and to date have secured over 20 channel partner arrangements in the US and Europe.

To date we have not generated material revenues. We currently earn revenue by charging a percentage to the merchant or gaming publisher for each transaction processed. In addition, in the second quarter ended June 30, 2014, we received our first affiliate marketing revenues – a channel we expect to grow in future quarters. We also expect to see some revenue from partner referral agreements. In 2015, we also expect additional revenue streams, including consumer fees. We charge an annual fee of \$10 for an Oink prepaid card product. It is our intention to keep the fees to the consumer as low as possible. We also expect additional revenue from our channel partners as the online gaming side of our business starts to accelerate. As part of our launch of the Oink card with Discover, Discover is paying us basis point fees for every time the cards are presented on the Discover network. While low, these fees are starting to generate revenue.

Strategic Outlook

We believe that the virtual goods market will continue to grow over the long term. Within the market, we intend to provide services to the online industry to allow merchants to transact with children in compliance with COPPA and similar international privacy laws. We believe that this particular opportunity is relatively untapped and expect to be a leading provider of online transactions for children.

Sustained spending on technology, our ability to raise additional financing, the continued growth of the online market, and compliance with regulatory and reporting requirements are all external conditions that may affect our ability to execute our business plan. In addition, the online payment industry is intensely competitive, and most participants have longer operating histories, significantly greater financial, technical, marketing, customer service and other resources, and greater name recognition. In addition, certain potential customers, particularly large organizations, may view our small size and limited financial resources as a negative even if they prefer our offering to those of our competitors.

Our primary strategic objectives are to increase our user base and the engagement level of that base. We plan to achieve that by the addition of several new gaming publishers who are currently in the integration phase and by the introduction of our new prepaid card program backed by Discover. The Oink Discover card is linked to the teens Oink wallet and provides parents with the ability to provide a safe and controlled payment method for their teens. The Oink app gives secure access to parents and teens on family spending and allows parents to easily add funds, monitor spending, remove and select categories and shut down a card if necessary. We are planning to market our new Discover card offering, our expanded online merchant and gaming network and affiliate marketing programs through a combination of social media programs and co-promotions with publishers merchants and other strategic partners. In addition, our new streamlined teen app was released in the third quarter of 2014 which we believe will drive additional exposure and usage for Oink. As our service grows, we may hire additional information technology staff to maintain our product offerings and develop new products to increase our market share.

We believe that our near-term success will depend particularly on our ability to develop customer awareness and confidence in our service. Since we have limited capital resources, we will need to closely manage our expenses and conserve our cash by continually monitoring any increase in expenses and reducing or eliminating unnecessary expenditures. Our prospects must be considered in light of the risks, expenses and difficulties encountered by companies at an early stage of development, particularly given that we operate in new and rapidly evolving markets, that we have limited financial resources, have generated no material revenue and face an uncertain economic environment. We may not be successful in addressing such risks and difficulties in the near term or at all.

Results of Operations

Comparison of the three months ended March 31, 2015 and 2014

The following discussion analyzes our results of operations for the three months ended March 31, 2015 and 2014. The following information should be considered together with our financial statements for such periods and the accompanying notes thereto.

Revenue/Net Loss

Revenue

We have not generated significant revenue since our inception. For the three months ended March 31, 2015 and 2014, we generated revenues of \$4,109 and \$425, respectively. Our volume of transactions in the first quarter of 2015 increased 5 times over those from the first quarter of 2014, but remain well below the level necessary to support our operations. As we add merchants and in particular, online gaming companies, we anticipate that our transaction volume will increase. Additionally, the addition of the Discover Card program in the fourth quarter of 2014 is also expected to increase our transaction volume. The Oink service is available through an iOS App, merchant or game publisher website, Android app and through the Oink.com website.

A user may access and use the service through any of these points of entry. Revenue is generated through a number of mechanisms as follows:

Transactional Revenue

A merchant or game publisher pays fees on any transactions that are driven through the Oink payment service. Oink has several live integrated online retail merchants, gaming companies and over 1,000 Facebook games in this category. The typical fees for this service are 1.5% to 3.0%. We expect to receive transactional revenue in the US, Canada and the UK.

Affiliate Revenue

This is a new category of revenue for Virtual Piggy and is currently in the US only. Oink serves up curated offers to consumers and receives a percentage fee on any transactions that occur by the consumer regardless of whether the consumer uses Oink as the payment method. The typical fees from this service are 2% to 8%. In September 2014, the Oink app v2.0 was launched which includes affiliate deals and offers. The app is free to use and a user does not have to be a member of the Oink community to access Oink deals. We encourage users to sign up for Oink so they can save offers for later use and management. To date, we have affiliate programs with over 200 retailers in the US.

Partner Referrals

In 2014, Oink has signed a number of partnerships with e-commerce platform partners and receives referral fees for any time a merchant or gaming publisher signs up with the partner. Our first revenue from this program was recognized towards the end of the third quarter ended September 2014.

Card Fees

In the fourth quarter of 2014, Oink launched a prepaid card tied to a user's Oink account. The fees consist of an annual fee and usages fees which will be paid by the card user. In addition, we receive fees from Discover for each transaction made using the Oink card.

Net Loss

Our net loss attributable to common stockholders decreased \$4.7 million to \$3.4 million for the three months ended March 31, 2015 compared to \$8.1 million for the three months ended March 31, 2014, as a result of decreased expenses and the change in fair value of the embedded derivative liability as further described below.

Sales and Marketing Expenses

Sales and marketing expenses decreased by \$0.3 million, or 26% in the first quarter of 2015 to \$0.9 million compared with \$1.2 million for the first quarter of 2014. During 2015, we decreased our spending on marketing promotions as we balanced our marketing programs with our available cash resources.

Product Development

Product development expenses decreased by \$0.3 million, or 33% in the first quarter of 2015 to \$0.6 million compared with \$0.9 million during the first quarter of 2014. During 2015, we decreased the size of our development staff and relied in part on outside resources for product development work.

Integration and Customer Support

Integration and customer support expenses decreased by \$0.1 million, or 67% in the first quarter of 2015 to \$0.1 million compared with \$0.2 million in 2014. During 2015, we decreased the size of our integration staff.

General and Administrative Expenses

General and administrative expenses increased by \$0.3 million, or 23% in the first quarter of 2015 to \$1.5 million compared with \$1.2 million in the first quarter of 2014. During the first quarter of 2015, we extended the expiration date of certain investor warrants, resulting in a non-cash charge to operations of \$219,051. Additionally, we reported a charge to operations in the first quarter of 2015 of \$127,288 to record the impact of foreign currency translation relating to our European operations which are denominated in British pounds.

Strategic Consulting Expenses

Strategic consulting expenses were \$0.1 million in the first quarter of 2015 compared with none in the first quarter of 2015. In 2015, we paid fees to an investment banking firm to advise the Company's board of directors on strategic alternatives.

Liquidity and Capital Resources

Net cash used in operating activities decreased \$1.7 million to \$2.3 million for the quarter ended March 31, 2015 compared to \$4.0 million for the quarter ended March 31, 2014. The decrease resulted from a lower operating loss, as the Company decreased the size of its staff and reduced operating expenses in an effort to manage its cash flow.

Net cash used in investing activities was \$33,170 for the first quarter of 2015, compared with \$106,375 for the first quarter of 2014. The Company reduced cash outlays in 2015 for purchases of property and equipment, along with its costs to secure patents and trademarks.

Net cash provided by financing activities decreased by \$4.5 million to \$2.0 million for the first quarter of 2015 from \$6.5 million for the first quarter of 2014. Cash provided by financing activities during the first quarter of 2015 consisted of our convertible debt offering of \$2 million. In the first quarter of 2014, cash provided from financing activities consisted of \$5.0 million from the proceeds of our preferred stock offering and \$2.5 million from the exercise of warrants, offset by the repayment of a \$1.0 million note payable.

Subsequent to March 31, 2015, the Company raised gross proceeds of \$940,000 through the issuance of its 10% Secured Convertible Promissory Notes due March 2016, to certain accredited investors.

As we have not realized significant revenues since our inception, we have financed our operations through public and private offerings of debt and equity securities. We do not currently maintain a line of credit or term loan with any commercial bank or other financial institution.

Since our inception, we have focused on developing and implementing our business plan. We believe that our existing cash resources will not be sufficient to sustain our operations during the next twelve months. We currently need to generate sufficient revenues to support our cost structure to enable us to pay ongoing costs and expenses as they are incurred, finance the continued development of Oink, and execute the business plan. If we cannot generate sufficient revenue to fund our business plan, we intend to seek to raise such financing through the sale of debt and/or equity securities. The issuance of additional equity would result in dilution to existing shareholders. If we are unable to obtain additional funds when they are needed or if such funds cannot be obtained on terms acceptable to us, we will be unable to execute upon the business plan or pay costs and expenses as they are incurred, which would have a material, adverse effect on our business, financial condition and results of operations.

Even if we are successful in generating sufficient revenue or in raising sufficient capital in order to complete the marketing of Oink, our ability to continue in business as a viable going concern can only be achieved when our revenues reach a level that sustains our business operations. We raised approximately \$7.3 million through sales of common stock and warrants, in addition to a bridge loan, in 2013, and \$14.9 million in 2014, net of repayment of the bridge loan, and \$2.6 million in 2015 through the sale of our convertible debt. The Oink product was introduced to the marketplace in the third quarter of 2011 and formally launched in the U.S. in 2012. We do not project that significant revenue will be developed until later in 2015 and in 2016. There can be no assurance that we will raise sufficient proceeds, or any proceeds, for us to implement fully our proposed business plan to aggressively develop and market our Oink product. Moreover there can be no assurance that even if our Oink product is marketed effectively and we achieve our user acquisition goals, that we will generate revenues sufficient to fund our operations. In either such situation, we may not be able to continue our operations and our business might fail.

As of May 8, 2015, the Company had a cash position of approximately \$1.6 million. Based upon the current cash position, management believes the Company has the capability to finance its operations through June 2015.

The foregoing forward-looking information was prepared by us in good faith based upon assumptions that we believe to be reasonable. No assurance can be given, however, regarding the attainability of the projections or the reliability of the assumptions on which they are based. The projections are subject to the uncertainties inherent in any attempt to predict the results of our operations, especially where new products and services are involved. Certain of the assumptions used will inevitably not materialize and unanticipated events will occur. Actual results of operations are, therefore, likely to vary from the projections and such variations may be material and adverse to us. Accordingly, no assurance can be given that such results will be achieved. Moreover due to changes in technology, new product announcements, competitive pressures, system design and/or other specifications we may be required to change the current plans for our Oink products.

Off-Balance Sheet Arrangements

As of March 31, 2015, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

At March 31, 2015, the Company was obligated under various non-cancelable operating lease arrangements for property as follows:

2015	\$	65,864
2016		52,701
	\$	<u>118,565</u>

Critical Accounting Policies

Our financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. A complete summary of these policies is included in Note 1 of the Notes to Financial Statements included elsewhere herein. We have identified below the accounting policies that are of particular importance in the presentation of our financial position, results of operations and cash flows and which require the application of significant judgment by management.

Stock-based Compensation

We have adopted the fair value recognition provisions Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) 718. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 “*Share-Based Payment*” (“SAB 107”) in March 2005, which provides supplemental FASB ASC 718 application guidance based on the views of the SEC. Under FASB ASC 718, compensation cost recognized includes compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FASB ASC 718.

We have used the Black-Scholes option-pricing model to estimate the option fair values. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, the expected pre-vesting forfeiture rate and the expected option term (the amount of time from the grant date until the options are exercised or expire).

Compensation expense for vested options granted to non-employees in previous periods is being amortized over the term of the consulting agreement.

Revenue Recognition

In accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104, Revenue Recognition (Codified in FASB ASC 605), we will recognize revenue when (i) persuasive evidence of a customer or distributor arrangement exists or acceptance occurs, (ii) a retailer, distributor or wholesaler receives the goods, (iii) the price is fixed or determinable, and (iv) collectability of the sales revenues is reasonably assured. Subject to these criteria, we will generally recognize revenue from Oink at the time of the sale of the associated product.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 1 of the Notes to Financial Statements contained elsewhere in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in market risk from the information provided in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” set forth in the Company’s 2014 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

As of March 31, 2015, we carried out the evaluation of the effectiveness of our disclosure controls and procedures required by Rule 13a-15(e) under the Exchange Act under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2015, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In September 2014, the Company received a subpoena from the Securities and Exchange Commission with respect to the preservation and production of documents relating to an investigation into trading in the Company's stock. The subpoena states that it should not be construed as an indication by the Securities and Exchange Commission that any violation of law has occurred, nor as a reflection upon any person, entity or security. The Company is cooperating fully with the terms of the subpoena.

ITEM1A. RISK FACTORS.

Investing in our common stock involves a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and in our 2014 Form 10-K, under the caption "Risk Factors", our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 2 of Part I of this Quarterly Report on Form 10-Q, our financial statements and related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and our consolidated financial statements and related notes, as well as our Management's Discussion and Analysis of Financial Condition and Results of Operations and the other information in our 2014 Form 10-K. Readers should carefully review those risks, as well as additional risks described in other documents we file from time to time with the Securities and Exchange Commission.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

Pursuant to the requirements 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.

VIRTUAL PIGGY, INC.

Date: May 11, 2015

By: /s/ Joseph Dwyer
Joseph Dwyer
Chief Financial Officer
(Duly authorized officer and principal financial officer)

CERTIFICATION

I, Jo Webber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Virtual Piggy, 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: May 11, 2015

By:

/s/ Jo Webber

Jo Webber
Chief Executive Officer

CERTIFICATION

I, Joseph Dwyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Virtual Piggy, 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: May 11, 2015

By:

/s/ Joseph Dwyer

Joseph Dwyer
Chief Financial Officer

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF VIRTUAL PIGGY, INC.
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Virtual Piggy, Inc. (the "Company") for the period ended March 31, 2015, as filed with the Securities and Exchange Commission (the "Report"), I, Jo Webber, Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, 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 results of operations of the Company.

Date: May 11, 2015

/s/ Jo Webber

Jo Webber
Chief Executive Officer

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF VIRTUAL PIGGY, INC.
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Virtual Piggy, Inc. (the "Company") for the period ended March 31, 2015, as filed with the Securities and Exchange Commission (the "Report"), I, Joseph Dwyer, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, 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 results of operations of the Company.

Date: May 11, 2015

/s/ Joseph Dwyer

Joseph Dwyer
Chief Financial Officer
