

PureSafe Water Systems, Inc.  
Form 10-Q  
November 25, 2015

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

X .

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

For the quarterly period ended September 30, 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: **001-09478**

**PureSafe Water Systems, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**86-0515678**

(I.R.S. Employer Identification No.)

**850 3<sup>rd</sup> Ave, New York, New York**  
(Address of principal executive offices)

**10022**  
(Zip Code)

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**(516) 208-8250**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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.

Large accelerated filer  . Accelerated filer  .  
Non-accelerated filer  . (Do not check if a smaller reporting company)  .  
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  .

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 25, 2015, 2,548,778,041 shares of the common stock of the registrant were issued and outstanding.

**PURES SAFE WATER SYSTEMS, INC.**

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**PART I FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.**

Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. The following unaudited consolidated financial statements should be read in conjunction with the year-end consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2014.

The results of operations for the three months and nine months ended September 30, 2015 and 2014 are not necessarily indicative of the results for the entire fiscal year or for any other period.

**PureSafe Water Systems, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ -	\$ 4,967
Accounts Receivable	17,000	-
Inventory	141,636	141,636
Prepaid expenses and other current assets	39,129	38,281
Total Current Assets	197,765	184,884
<b>NON-CURRENT ASSETS</b>		
Property and equipment, net of accumulated depreciation of \$44,449 at June 30, 2015 and December 31, 2014	-	-
Patents and Trademarks, net of accumulated amortization of \$57,075 and \$45,023 respectively	48,740	53,318
Other assets	23,390	23,390
Total Non-current assets	72,130	76,708
Total Assets	\$ 269,895	\$ 261,592
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,822,586	\$ 1,474,363
Accrued compensation	316,150	951,982
Accrued consulting and director fees	144,000	144,000
Notes payable to officer and director (including accrued interest of \$0 and \$170,710 at September 30, 2015 and December 31, 2014, respectively)	17,500	560,760
Convertible promissory notes (including accrued interest of \$489,953 and \$327,807 and net of discount of \$28,200 and \$200,459, respectively at September 30, 2015 and December 31, 2014, respectively)	2,123,343	1,772,571
Promissory notes payable (including accrued interest of \$316,904 and \$273,086 at June 30, 2015 and December 31, 2014, respectively)	1,566,489	842,531
Fair value of detachable warrants and conversion option	764,057	2,354,600
Accrued dividends payable	190,328	190,328
Preferred stock to be issued	-	40,000
Common stock to be issued	-	5,000

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Total Current Liabilities	6,944,454	8,336,135
Total Liabilities	6,944,454	8,336,135

STOCKHOLDERS' DEFICIT:

Preferred stock Series B, \$0.00001 par value, 8% dividend: 10,000,000 shares authorized; 184,672 and 184,224 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively. Liquidation preference of \$4,525,915 and \$3,858,801 as of September 30, 2015 and December 31, 2014, respectively	2	2
Common stock at \$0.00001 par value: 10,000,000,000 shares authorized; 2,548,778,041 and 1,743,981,226 shares issued at September 30, 2015 and December 31, 2014	25,488	17,439
Additional paid-in capital	45,317,106	44,170,214
Treasury stock, at cost, 4,400 shares	(5,768)	(5,768)
Accumulated deficit	(52,011,387)	(52,256,430)
Total Stockholders' Deficit	(6,674,559)	(8,074,543)

Total Liabilities and Stockholders' Deficit	\$ 269,895	\$ 261,592
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The accompanying notes are an integral part of these condensed consolidated financial statements

**PureSafe Water Systems, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014
SALES	\$ 51,000	\$ -
COST OF SALES	2,111	-
GROSS PROFIT	48,889	-
OPERATING EXPENSES:		
Compensation and related benefits, including stock-based compensation of \$15,000 and \$-0- for the three months ended June 30, 2015 and June 30, 2014, respectively	45,000	79,348
Insurance and medical benefits	4,416	17,332
Research and Development	2,826	-
Professional, legal and consulting fees, including stock based compensation of \$-0-and \$225,000 for the three months ended June 30, 2015 and June 30, 2014	9,630	331,696
Marketing	-	3,503
Occupancy	91,125	312,755
Other Administrative and General	9,991	40,154
Total operating expenses	162,988	784,788
LOSS FROM OPERATIONS	(114,099)	(784,788)
OTHER INCOME (EXPENSE)		
Other Income	-	2,568
Interest expense, including interest to related parties of \$18,845 and \$15,447 for the three months ended September 30, 2015 and 2014, respectively	(220,027)	(258,421)
Gain on debt restructure	307,508	-
Change in fair value of derivative liability	(22,951)	(1,114,900)
Other (income) expense, net	64,530	(1,370,753)
Net Income (Loss)	(49,569)	(2,155,541)



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Dividend on Preferred stock	(33,638)	(27,075)
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	(83,207)	(2,182,616)
NET LOSS PER COMMON SHARE		
- basic	\$ (0.00)	\$ (0.00)
- diluted	\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding		
- basic	2,548,778,041	1,124,200,104
- diluted	21,311,441,547	1,124,200,104

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

**PureSafe Water Systems, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**

(unaudited)

	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
SALES	\$ 53,294	\$ -
COST OF SALES	2,111	-
GROSS PROFIT	51,183	-
OPERATING EXPENSES:		
Compensation and related benefits, including stock-based compensation of \$45,000 and \$-0- for the nine months ended September 30, 2015 and September 30, 2014, respectively	201,564	253,472
Insurance and medical benefits	33,957	60,850
Research and Development	4,857	676
Professional, legal and consulting fees, including stock based compensation of \$-0-and \$650,000 for the nine months ended September 30, 2015 and September 30, 2014	89,126	858,563
Marketing	2,040	3,701
Occupancy	278,692	338,275
Other Administrative and General	38,661	86,807
Total operating expenses	648,896	1,602,344
LOSS FROM OPERATIONS	(597,713)	(1,602,344)
OTHER INCOME (EXPENSE)		
Other Income	-	2,568
Interest expense, including interest to related parties of \$39,642 and \$45,692 for the nine months ended September 30, 2015 and 2014, respectively	(1,053,463)	(716,326)
Gain on debt restructure	307,508	
Change in fair value of derivative liability	1,588,711	(1,373,500)
Other (income) expense, net	842,756	(2,087,258)
Net Income (Loss)	245,043	(3,689,602)

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Dividend on Preferred stock	(100,914)	(81,225)
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	144,129	(3,770,827)
NET LOSS PER COMMON SHARE		
- basic	\$ 0.00	\$ (0.00)
- diluted	\$ 0.00	\$ (0.00)
Weighted average common shares outstanding		
- basic	2,446,300,595	1,104,569,253
- diluted	21,208,964,101	1,104,569,253

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

**PureSafe Water Systems, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**

	For the Nine months Ended September 30, 2015	For the Nine months Ended September 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ 245,043	\$ (3,689,602)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Amortization of patents and trademarks	4,578	4,578
Interest expense- amortization of deferred financing	-	9,805
Professional fees- note conversions	600	1,974
Stock based compensation	45,000	652,810
Gain on debt restructure	(307,508)	-
Accretion of debt discount	429,937	327,058
Interest expense paid for late delivery settled through the issuance of common stock	5,000	17,898
Interest expense- derivative liabilities	384,113	157,700
Change in Fair value of warrants and embedded conversion option	(1,588,711)	1,373,500
Changes in operating assets and liabilities:		
Accounts Receivable	(17,000)	-
Prepaid expenses and other current assets	(848)	32,780
Accounts payable, accrued expenses, accrued interest, accrued dividends, accrued compensation, accrued consulting and director fees and other current liabilities	569,162	648,879
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(230,635)</b>	<b>(462,620)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in unconsolidated subsidiary	-	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash proceeds from convertible promissory notes	258,238	293,500
Cash proceeds from convertible promissory notes, officers and directors	3,490	11,300

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Repayment of officers' and directors' loans	-	(11,300)
Cash received under preferred stock subscription	51	-
Cash proceeds from notes payable	-	196,800
Repayment of notes payable	(36,111)	(6,800)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>225,669</b>	<b>483,500</b>
<b>NET CHANGE IN CASH</b>	<b>(4,967)</b>	<b>20,880</b>
Cash at beginning of period	4,967	2,199
Cash at end of period	\$ -	\$ 23,079
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
New debt issued in Debt restructure	\$ 750,000	\$ -
Convertible and non-convertible debt retired in debt restructure	\$ 359,895	\$ -
Common stock issued for settlement of liabilities	\$ 27,111	\$ 86,179
Common stock issued for settlement of convertible debt	\$ 23,585	\$ 223,996
Reclassification of derivative liabilities to equity	\$ 527,295	\$ 291,900
Conversion of accrued liabilities to convertible notes	\$ -	\$ 150,000
Preferred stock under debt restructure	\$ 1,199,045	\$ -
Debt discount recorded on convertible debt and warrants accounted for as derivative liabilities	\$ 258,238	\$ 378,200

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

**PureSafe Water Systems Inc. and Subsidiary**

**Notes to Condensed Consolidated Financial Statements**

**NOTE 1: DESCRIPTION OF BUSINESS**

PureSafe Water Systems, Inc. (the "Company") is a Delaware corporation engaged in the design, development, manufacturing and sales of the PureSafe First Response Water System (the FRWS ), both within and outside of the United States. The Company's corporate headquarters are located in New York City, New York.

**NOTE 2: BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, these interim financial statements do not include all of the information and footnotes required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included.

The operating results for the three month and nine month periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on June 05, 2015.

**Principles of Consolidation**

The Company applies the guidance of Topic 810 Consolidation of the FASB Accounting Standards Codification to determine whether and how to consolidate another entity. Pursuant to ASC Paragraph 810-10-15-10 all majority-owned subsidiaries all entities in which a parent has a controlling financial interest shall be consolidated except (1) when control does not rest with the parent company; (2) if the parent is a broker-dealer within the scope of Topic 940 and control is likely to be temporary; (3) consolidation by an investment company within the scope of

Topic 946 of a non-investment-company investee. Pursuant to ASC Paragraph 810-10-15-8 the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree. The Company consolidates all less-than-majority-owned subsidiaries, if any, in which the parent's power to control exists.

The Company's consolidated subsidiaries and/or entities are as follows:

<b>Name of consolidated subsidiary or entity</b>	<b>State or other jurisdiction of incorporation or organization</b>	<b>Date of incorporation or formation (date of acquisition, if applicable)</b>	<b>Attributable interest</b>
PureSafe Manufacturing and Research Corporation	Delaware	September 29, 2009	100%
Sustainable Resources Corporation	Delaware	April 23, 2015	100%

The condensed consolidated financial statements include all accounts of the Company and consolidated subsidiaries and/or entities as of September 30, 2015 and December 31, 2014 and for the three months and nine months ended September 30, 2015 and 2014.

All significant inter-company balances and transactions have been eliminated.

### **Use of Estimates**

The preparation of condensed consolidated 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, liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates on historical experience and on various assumptions 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. The most significant estimates, among other things, are used in accounting for allowances for deferred income taxes, expected realizable values for long-lived assets (primarily intangible assets and property and equipment), contingencies, as well as the recording and presentation of its common stock and other securities. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the condensed consolidated financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

### **Cash and Cash Equivalents**

The Company considers all highly liquid instruments with original maturity of three months or less when purchased to be cash equivalents. As of September 30, 2015 and December 31, 2014 the Company did not have any cash equivalents. The Company had a negative cash balance of approximately at \$2,000 which has been reclassified to accounts payable and accrued expenses at September 30, 2015.

### **Inventories**

Inventory consisting primarily of finished goods and raw materials is stated at the lower of cost or market utilizing the first-in, first-out method. The Company continually analyzes its slow-moving, excess and obsolete inventories. Based on historical and projected sales volumes and anticipated selling prices, the Company establishes reserves. If the Company does not meet its sales expectations, these reserves are increased. Products that are determined to be obsolete are written down to net realizable value.

### **Deferred Financing Costs**

Cost incurred in conjunction with the debt financing has been capitalized and will be amortized to interest expense using the straight line method, which approximates the interest rate method over the term of the debt and is included as a component of other assets. Amortization of deferred financing cost was \$0 and \$9,805 for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, these costs were fully amortized.

### **Derivative Liabilities**



In connection with the issuance of certain convertible promissory notes, the terms of the convertible notes included an embedded conversion feature; which provided for the settlement of certain convertible promissory notes into shares of common stock at a rate which was determined to be variable with no floor. The Company determined that the conversion feature was an embedded derivative instrument pursuant to ASC 815 Derivatives and Hedging

The accounting treatment of derivative financial instruments requires that the Company record the conversion option and related warrants, if applicable, at their fair values as of the inception date of the agreements and at fair value as of each subsequent balance sheet date. As a result of entering into certain convertible promissory notes, the Company is required to classify all other non-employee warrants as derivative liabilities and record them at their fair values at each balance sheet date because the Company could not determine it has enough authorized shares to settle the contracts. Any change in fair value was recorded as a change in the fair value of derivative liabilities for each reporting period at each balance sheet date. The Company reassesses the classification at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

The fair value of conversion options that are convertible at a variable conversion price are required to be valued using a Binomial Lattice Model. The Company determined the fair value of the conversion option using either the Black-Scholes Valuation Model or the Binomial Lattice Model to be materially the same.

The Black-Scholes Valuation Model is used to estimate the fair value of the warrants and conversion option. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the instrument granted.

The principal assumptions used in applying the Black-Scholes model were as follows:

	<b>For the Nine months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Assumptions:		
Risk-free interest rate	0.05-1.37%	0.23-1.73%
Expected life	.01 4.39 years	.01 5 years
Expected volatility	175%-183%	165%-171%
Dividends	0.0%	0.0%

### **Stock-Based Compensation**

The Company reports stock-based compensation under Accounting Standard Codification ( ASC ) 718 Compensation Stock Compensation . ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their fair values.

The Company accounts for equity instruments issued to non-employees as compensation in accordance with the provisions of ASC 718, which require that each such equity instrument is recorded at its fair value on the measurement date, which is typically the date the services are performed.

For the nine months ended September 30, 2015 and 2014 the Company recorded stock based compensation of \$45,000 and \$0, respectively.

For the three months ended September 30, 2015 and 2014 the Company recorded stock based compensation of \$15,000 and \$0, respectively.

The Black-Scholes option valuation model is used to estimate the fair values of options. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the subject options or warrants. During the nine months ended September 30, 2015 the Company has not granted any options or warrants.

### **Impairment of Long-Lived Assets**

The Company assesses the recoverability of its long lived assets, including property and equipment when there are indications that the assets might be impaired. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the asset's estimated future cash flows (discounted and with interest charges). If the carrying amount exceeds the asset's estimated future cash flows (discounted and with interest charges), the loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets. Based on its assessments, the Company did not incur any impairment charges for the three months ended September 30, 2015 and 2014.

### **Research and Development**

Research and development costs consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge, which will be useful in developing new products or processes. The Company expenses all research and development costs as incurred. The Company incurred a charge of \$4,857 and \$676 for the nine months ended September 30, 2015 and 2014, respectively. The Company incurred expenses of \$2,826 and \$-0- for the three months ended September 30, 2015 and 2014, respectively.

### **Subsequent Events**

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company identified certain subsequent events that would require disclosure in the consolidated financial statements. See Note 15: Subsequent Events, for such disclosures.

**NOTE 3: GOING CONCERN**

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred a net loss from operations of (\$597,713) for the nine months ended September 30, 2015. The Company has a working capital deficit of approximately (\$6,746,000) as of September 30, 2015. The Company continues to incur recurring losses from operations and has an accumulated deficit since inception of approximately \$52 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to bring the Company's products to market and generate revenues, control costs, and obtain additional financing, as required and on reasonable terms. The Company's plans with respect to these matters include restructuring its existing debt and raising additional financing through issuance of preferred stock, common stock and/or debt.

The Company's goal is to generate the sales of the Company's flagship mobile water purification product and to ultimately diversify its product line through ingenuity and/or acquisition. In order to accomplish these goals we are redirecting the sales effort so that the Company will no longer predominantly focus on the government sector, a target with historically long lead times. In addition the Company is reviewing the entire approach to the product with an aim to 1) deepen and diversify our distribution channels, 2) lower our cost of production, 3) improve the Company's profit margin on and 4) maintain an inventory of units for immediate sale.

The Company requires immediate capital to remain viable. The Company can give no assurance that such financing will be available on terms advantageous to the Company, or at all. Should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain or all of its operational activities. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Subsequent to September 30, 2015, the Company has not incurred any additional convertible or non-convertible notes payable.

**NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS**

The FASB and the SEC have issued certain accounting standards updates and regulations that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during 2015

or 2014, and does not believe that any of those pronouncements will have a significant impact on the Company's consolidated financial statements at the time they become effective.

**NOTE 5: RELATED PARTIES**

Related parties of the Company consist of the following individuals/entities:

**Related Parties**

Southridge LLC ( Southridge )

**Relationship**

An entity of which the President and member of the board of directors of the Company is the Chief Executive Officer.

Southridge Partners II LP ( Southridge II )

An entity of which the President and member of the board of directors of the Company is the Manager of the general partner of Southridge II. Southridge II is a controlled company in the Southridge LLC group of companies.

Tarpon Bay Partners, LLC ( Tarpon )

An entity of which the President and member of the board of directors of the Company is the Manager. Tarpon is a controlled company in the Southridge LLC group of companies.

ASC Recap LLC ( ASC Recap )

An entity of which the President and member of the board of directors of the Company is the Manager. ASC Recap is a controlled company in the Southridge LLC group of companies.

Please see NOTE 8: CONVERTIBLE PROMISSORY NOTES PAYABLE and NOTE 9: CONVERTIBLE NOTES AND NOTES PAYABLE- OFFICER AND DIRECTOR for additional detail on related party transactions.

*Troubled debt restructuring    Convertible Notes and Notes Payable    Related parties*

The Company, Tarpon, ASC Recap LLC and Southridge Partners II LP agreed to restructure all financial arrangements as follows: Tarpon was the holder of convertible notes issued by the Corporation in the aggregate principal amount of \$312,394.54 (the Tarpon Notes ); ASC Recap LLC ( ASC ) is the holder of 25,375,000 shares of the Company s common stock (the ASC Common Stock ); and Southridge Partners II, LP ( Southridge II ) is the holder of convertible notes issued by the Company in the aggregate principal amount of \$47,500 ( Southridge II Notes ), the Tarpon Notes, the ASC Common Stock and the Southridge II Notes being referred to as the Securities . The Company effective July 2, 2015 entered into an Exchange Agreement with Tarpon, ASC, Southridge II and Hicks, collectively the Holders , pursuant to which the Company issued to Tarpon a 10% Promissory Note due September 30, 2016, in the principal amount of \$750,000 (the Note ), in exchange for (1) delivery to the Company and cancellation by the respective Holders thereof of the Securities, and the shares of Series H Preferred Stock held by Tarpon, and (2) the return to the Company for no consideration of the outstanding 51 shares of Series G Preferred Stock.

Pursuant to this transaction the Company recorded on a Gain on Restructuring of \$307,508 as follows:

Retirement of principal value of Tarpon Notes and Southridge II Notes	\$ 359,895
Retirement of accrued interest of Tarpon Notes and Southridge II Notes	17,861
Retirement of 29 shares of Series H Preferred Stock and 51 shares of Series G Preferred Stock at recorded value	672,745
Market value of Common stock to be retired by ASC*	2,538
Accretion of Original Issue Discount to reach face value on retired debt	4,470
Newly issued non-convertible debt with a face value of \$750,000	(750,000)
Net gain on restructuring from retirement of debt	\$ 307,508

\* The Company has not retired these shares as of the date of this report.

**NOTE 6: INVENTORIES**

Inventories consist of the following at September 30, 2015 and December 31, 2014:

	September 30,	December 31,
	2015	2014
Finished Goods \$	141,636 \$	141,636
Total \$	141,636 \$	141,636

**NOTE 7: BASIC AND DILUTED EARNINGS PER SHARE****Basic and Diluted Earnings Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. The weighted-average number of common shares outstanding does not include any potentially dilutive securities.

Diluted earnings (loss) per share gives the effect of all potentially dilutive securities on earnings per share. Our outstanding convertible preferred stock, convertible notes, and warrants are potentially dilutive securities. The difference between basic and diluted weighted-average shares outstanding is the dilutive effect of our convertible notes and convertible preferred stock.

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The following table represents a reconciliation of the basic and diluted earnings (loss) per share, or EPS, computations contained in our condensed consolidated financial statements:

	Three months ended September 30, 2015			Three months ended September 30, 2014		
	Net	Weighted-	Earnings	Net	Weighted-	Earnings
	Income	Average	per	Income	Average	per
	(loss)	Shares	Share	(loss)	Shares	Share
Basic EPS	\$ (49,569)	2,548,778,041	\$ (0.00002)	\$ (2,155,541)	1,124,200,104	\$ (0.00192)
Effect of dilutive securities:						
Convertible preferred stock	-	1,437,584,721	-	-	-	-
Convertible notes	194,590	17,325,078,785	0.00001	-	-	-
Diluted EPS	\$ 145,021	21,311,441,547	\$ 0.00001	\$ (2,155,541)	1,124,200,104	\$ (0.00192)
	Nine months ended September 30, 2015			Nine months ended September 30, 2014		
	Net	Weighted-	Earnings	Net	Weighted-	Earnings
	Income	Average	per	Income	Average	per
	(loss)	Shares	Share	(loss)	Shares	Share
Basic EPS	\$ 245,043	2,446,300,595	\$ 0.00010	\$ (3,689,602)	1,104,569,253	\$ (0.00334)
Effect of dilutive securities:						
Convertible preferred stock	-	1,437,584,721	-	-	-	-
Convertible notes	(1,484,230)	17,325,078,785	(0.00009)	-	-	-
Diluted EPS	\$ (1,239,187)	21,208,964,101	\$ (0.00006)	\$ (3,689,602)	1,104,569,253	\$ (0.00334)

**Fair Value**

ASC 820 Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Standard clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date and emphasizes



that fair value is a market-based measurement and not an entity-specific measurement.

ASC 820 establishes the following hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value:

.  
Level 1 Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

.  
Level 2 Inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

.  
Level 3 Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

Liabilities measured at fair value on a recurring basis at September 30, 2015 are as follows:

	<b>Quoted Prices in Active Markets for Identical Liabilities</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs</b>	
	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>	<b>Balance</b>
Embedded conversion feature	\$	\$	\$ 754,417	\$ 754,417
Warrant liability	\$	\$	\$ 9,640	\$ 9,640
Balance at March 31, 2015	\$	\$	\$ 764,057	\$ 764,057

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. The Company's Level 3 liabilities consist of derivative liabilities associated with convertible debt that contains an indeterminable conversion share price and the tainted warrants as the Company cannot determine if it will have sufficient authorized common stock to settle such arrangements.

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs during the three months ended September 30, 2015.

	<b>Conversion</b>		
	<b>Warrants</b>	<b>Feature</b>	<b>Total</b>
Balance at December 31, 2014	\$ 11,400	\$ 2,343,200	\$ 2,354,600
Change in fair value of derivative liability	(6,615)	(1,582,096)	(1,588,711)
Included in liabilities (debt discount)		258,238	258,238
Included in liabilities (derivative expense)	4,855	379,258	384,113
Included in stockholders' equity		(527,295)	(527,295)
Balance at September 30, 2015	\$ 9,640	\$ 754,417	\$ 764,057

**NOTE 8: CONVERTIBLE PROMISSORY NOTES PAYABLE**

a)

On January 15, 2015 the Company issued a convertible promissory note in the principal amount of \$10,500 to Tarpon, a related party. The convertible note matures on January 31, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$10,500. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

b)

On January 23, 2015 the Company issued a convertible promissory note in the principal amount of \$18,500 to Tarpon, a related party. The convertible note matures on December 31, 2015 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$18,500. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

c)

On January 23, 2015 the Company issued a convertible promissory note in the principal amount of \$850 to Tarpon, a related party, for proceeds of \$779. The convertible note matures on December 31, 2015 with the stated interest rate at 10%. The note is convertible into the Company s common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$850. The debt discount relates to fair value of the conversion option and original issue discount. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

d)

On February 3, 2015 the Company issued a convertible promissory note in the principal amount of \$50,000. The convertible note matures on August 31, 2015 with the stated interest rate at 8%. The note is convertible into the Company s common stock at a 50% discount of the lowest closing bid price during the 20 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$50,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the

note was recorded to interest expense on the date of issuance.

e)

On February 11, 2015 the Company issued a convertible promissory note for \$11,000 to Tarpon, a related party. The convertible note matures on January 31, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 - Derivatives and Hedging. Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$11,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

f)

On February 23, 2015 the Company issued a convertible promissory note in the principal amount of \$25,000 to Tarpon, a related party. The convertible note matures on February 29, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$25,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

g)

On March 5, 2015 the Company issued a convertible promissory note in the principal amount of \$17,500 to Tarpon, a related party. The convertible note matures on March 31, 2016 with the stated interest rate at 10%. The note is convertible into the Company s common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$17,500. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

h)

On March 18, 2015 the Company issued a convertible promissory note in the principal amount of \$13,000 to Tarpon, a related party. The convertible note matures on March 31, 2016 with the stated interest rate at 10%. The note is convertible into the Company s common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$13,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

i)

On April 6, 2015 the Company issued a convertible promissory note in the principal amount of \$23,000 to an unrelated party. The convertible note matures on April 30, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$23,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

j)

On April 17, 2015 the Company issued a convertible promissory note in the principal amount of \$30,000 to Tarpon, a related party for \$25,000. The convertible note matures on April 30, 2016 with the stated interest rate at 10%. The difference between the face value of the Note and the proceeds received of \$5,000 was recorded as an Original Issue Discount (OID). The OID will be amortized into interest expense pro-rata over the life of the note. At the maturity date, the note's carrying value will be equivalent to the principal amount. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$25,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

k)

On April 29, 2015 the Company issued a convertible promissory note in the principal amount of \$15,000 to Tarpon, a related party. The convertible note matures on April 30, 2016 with the stated interest rate at 10%. The note is convertible into the Company s common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$15,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

l)

On May 14, 2015 the Company issued a convertible promissory note in the principal amount of \$15,000 to Tarpon, a related party. The convertible note matures on May 31, 2016 with the stated interest rate at 10%. The note is convertible into the Company s common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$15,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.



m)

On May 20, 2015 the Company issued a convertible promissory note in the principal amount of \$5,000 to Tarpon, a related party for \$5,500. The convertible note matures on April 30, 2016 with the stated interest rate at 10%. The difference between the face value of the Note and the proceeds received of \$500 was recorded as an Original Issue Discount (OID). The OID will be amortized into interest expense pro-rata over the life of the note. At the maturity date, the note's carrying value will be equivalent to the principal amount. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$5,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

n)

On May 28, 2015 the Company issued a convertible promissory note in the principal amount of \$15,000 to Tarpon, a related party. The convertible note matures on May 31, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$15,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

o)

On May 28, 2015 the Company issued a convertible promissory note in the principal amount of \$3,888 to Tarpon, a related party. The convertible note matures on May 31, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$3,888. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

p)

On July 15, 2015 the Company issued a convertible promissory note in the principal amount of \$5,000 to an unrelated party. The convertible note matures on June 30, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$5,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

q)

On July 23, 2015 the Company issued a convertible promissory note in the principal amount of \$23,000 to an unrelated party. The convertible note matures on June 30, 2016 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$5,000. The debt discount relates to fair value of the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

r)

During the nine months ended September 30, 2015, three note holders requested to convert total aggregated \$19,600 principal plus accrued interest of \$3,984 into the Company's common stock. The Company issued 432,895,711 shares of common stock in connection with such conversions.

s)

On July 2, 2015, the Company retired \$359,895 of convertible debts, \$17,861 of accrued interest, 25,375,000 shares of common stock and the Series G and Series H preferred stock for \$750,000 in new indebtedness, See Note 5 for more detail.

**NOTE 9: CONVERTIBLE NOTES AND NOTES PAYABLE OFFICERS & DIRECTOR**

a)

During the first quarter of 2015 an officer of the Company advanced \$3,490 to the Company. The proceeds from the non-interest bearing advance were used for general operating expenses. The Company did not impute interest on the loan as it was deemed to be de minimus to the financial statements. As of September 30, 2015 the Company is reflecting a liability of \$3,490.

*Troubled debt restructuring Convertible Notes and Notes Payable Officers & Directors*

On February 6, 2015, the Company entered into an agreement in order to satisfy outstanding liabilities of the Company due to our Chief Executive Officer, Leslie Kessler ( Kessler ), dating back to 2007. In the settlement, Ms. Kessler and the Company have agreed, in exchange for the issuance of 325 shares of convertible preferred stock ( Series J Preferred Stock ) to Ms. Kessler, that all deferred compensation owing to Ms. Kessler and all loan obligations of the Company due to Ms. Kessler would be terminated, apart from a \$17,500 loan to the Company by Ms. Kessler, which remains outstanding.

The Series J Preferred Stock issued to Ms. Kessler has a stated value of \$325,000 and an annual dividend yield of 5%, and is convertible into 650,000,000 shares of common stock at the option of Ms. Kessler. The Company has the option to redeem the preferred stock at any time for an amount equal to its stated value plus any accrued dividend by paying cash to Ms. Kessler subject to a conversion notice tendered by the holder within five days from receipt of a redemption notice.

The Company estimated the fair value of the 325 shares of preferred stock on the date of the settlement to be \$195,000.

The gain resulting from the settlement of the amounts due to Kessler was determined as follows:

Preferred stock to be issued	\$	195,000
Total consideration		195,000
Amount outstanding under deferred compensation agreements		(846,038)
Interest accrued on deferred compensation		(148,634)
Book value of 6,431,944 cancelled warrants		-

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Amount outstanding under debt agreements	(138,951)
Interest accrued on debt agreements	(25,422)
Gain on restructuring of debt	\$ (964,045)

The gain on restructuring of debt of \$964,045 was accounted for as contributed capital due to the related party nature of the transaction.

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

**Employment Agreements**

As per the terms of an agreement with our Chief Executive Office entered into on February 6, 2015, during 2015 our CEO shall receive monthly compensation of \$10,000 in cash and \$5,000 in stated value of Series H Preferred Stock, and be eligible to receive cash and equity bonus compensation from revenue received from sales generated by her.

**Operating Leases**

*25 Fairchild Ave*

Effective as of July 1, 2008, the Company entered into a seven-year lease for 5,300 square feet of space at 25 Fairchild Avenue in Plainview, New York. The facility is to serve as the Company's executive offices, sales office, showroom and an assembly area.

In March 2012 management exercised a Good Guy Clause in its lease and abandoned the space at 25 Fairchild Avenue.

On September 12, 2012, as a result of the Company's action, Fairchild Warehouse Associates, LLC (Fairchild), as plaintiff, filed suit for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, N.Y. 11803. An inquest began on December 10, 2014 to determine the amount of money damages due on Fairchild's claim and on March 3, 2015 the court awarded judgment to the plaintiff against the Company in the sum of \$887,929. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$892,042. Interest on the judgment will continue to accrue at the rate of 9% per annum until satisfied.

During the nine months ended September 30, 2015 the Company recorded rent, rent related expenses and penalties of \$273,375 as a result of the judgment which is included in occupancy expense in the accompanying condensed consolidated statements of operations. As of September 30, 2015 the Company has accrued a liability of \$1,086,993 related to the judgment and is included in accounts payable and accrued liabilities at September 30, 2015.

### **Consulting Agreement**

On June 13, 2014, the Company entered into a consulting agreement (the *Consulting Agreement*) with Tarpon, a related party, for the period from the date of the agreement through March 31, 2015. The agreement requires Tarpon to provide general management and consulting services and advisory services to the Company, including assistance in connection with the restructuring of its outstanding debt and equity securities.

Pursuant to the terms of the Consulting Agreement, Tarpon will be compensated by the issuance to it by the Company of shares of Series H Convertible Preferred Stock. Pursuant to the terms of the Consulting Agreement, Tarpon will receive Series H Preferred Stock with a stated value of \$425,000 upon the execution of the Agreement, and additional Series H Preferred Stock with a stated value of \$75,000 monthly, commencing July 1, 2014 and continuing through the balance of the term. Tarpon received an initial issuance of 17 shares of Series H Preferred (convertible into 151,785,714 shares of common stock) on June 17, 2014, and monthly issuances on July 1, August 1, September 1 and October 1, 2014, of three shares each of Series H Preferred Stock (convertible into 53,571,429, 68,181,818, 187,500,000 and 150,000,000 shares of common stock, respectively). Tarpon has waived its rights under the consulting agreement to the November and December 2014, and the January, February, March, 2015, issuances of Series H Preferred Stock. The execution and delivery of the Consulting Agreement was approved by the directors of the Company. The Company's President did not participate in the vote on this matter.

### **Equity Purchase Agreement**

On June 13, 2014, the Company entered into an Equity Purchase Agreement with an accredited investor. The terms of the Equity Purchase Agreement provide that the Investor agrees, subject to put notices from the Company, to purchase up to \$5,000,000 in Common Stock during the 24 months following the execution of the Agreement, subject to certain conditions and limitations. For each closing, the purchase price of the Common Stock will be 90% of the average of the three lowest Closing Bid Prices during the 10 trading days following the relevant Clearing Date (as defined in the Equity Purchase Agreement). In connection therewith, the Company also entered into a Registration Rights Agreement with the investor, pursuant to which the Company is required to file a Registration Statement with the Securities and Exchange Commission for the expected number of shares to be issued under the Equity Purchase Agreement within 120 days of the date of the Registration Rights Agreement. The Investor also provided the Company with a one year loan of \$100,000; the obligation to repay this loan is represented by a Promissory Note issued by the Company to the Investor. As of September 30, 2015, no shares have been purchased under the Equity Purchase Agreement and the Company has not filed a registration statement.

### **Settlement Agreement**

On September 30, 2014 the Company entered into an agreement in-order to satisfy an outstanding liability of the Company to our former Vice President of International Markets, Shaul Kochan, dating back to 2009. Per the terms of the agreement the Company would issue 110 shares of preferred stock with a stated value equal to \$110,000, which would be redeemed by the Company on a monthly basis in 14 separate tranches at the beginning of each calendar month beginning October 1, 2014.

In addition, the Company would extend the maturity date of the outstanding warrant held by Mr. Kochan from its current expiration date of March 7, 2015 to March 7, 2017, and issue an additional warrant to Mr. Kochan for right to exercise and purchase 2,000,000 shares of the Company's common stock at an exercise price of \$0.052 and maturity date of March 7, 2017.

On March 9, 2015, the Company rescinded the settlement agreement with Kochan due to the assertion of further claims by Kochan. Due to termination of the settlement agreement the Company did not issue Kochan the preferred shares and additional warrants provided for under the agreement. Payments totaling \$15,000 made to Kochan during the year ended December 31, 2014 shall be applied toward outstanding liabilities owed to Kochan.

### Litigation

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment.

In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.



Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows. As of March 31, 2015, the Company has the following litigation outstanding.

The Company has remained a defendant in a lawsuit since September 12, 2012 in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC ( Fairchild ), as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, New York 11803. An inquest began on December 10, 2014 to determine the amount of money damages due on Fairchild's claim and on March 3, 2015 the court awarded judgment to the plaintiff against the Company in the sum of \$887,929. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$892,042. Interest on the judgment will continue to accrue at the rate of 9% per annum until satisfied. As of March 31, 2015 the Company has accrued a liability of \$1,086,993 related to the judgment and is included in accounts payable and accrued liabilities at September 30, 2015.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP ( TCA ), providing for the issuance of \$275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. On October 4, 2013, at the request of the lender due to default, the Company converted \$303,499 of convertible notes and accrued interest into a new convertible note in the amount of \$531,431. The increase in principal was due to amounts charged by the lender for penalties, interest, legal and other fees. The newly issued note bears interest at rates of 18% per annum and is due on demand. The lender may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under the Note into shares of the Company's common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company's common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 4.99% of our outstanding common stock upon any conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. On March 10, 2014, TCA accelerated the outstanding principal balance, interest, calculated at the default rate of 18%, and all sums due under the original note and any amendments. In August 2014 a default final judgment was entered against the Company concluding that TCA is entitled to damages in the amount of \$610,349, to foreclose upon the security interests, and to recover attorneys' fees and costs incurred by TCA. In addition prejudgment interest shall be assessed at a rate of 18% per annum and post judgment interest shall be assessed at a rate of 4.75% per annum. As of September 30, 2015 the Company has accrued a liability of \$724,340 related to the TCA claim and is included in convertible notes payable.

On November 27, 2013, the Company entered into a settlement agreement with Tarpon Bay Partners LLC ( Tarpon ), a related party. The manager of Tarpon is Stephen Hicks, the President of the Company. Tarpon previously purchased outstanding liabilities of the Company from TCA in the amount of \$506,431 and Designs and Project Development Corporation (a former landlord) in the amount of \$56,429. Per the terms of the settlement the Company was to issue Tarpon shares of common stock in one or more tranches as necessary, and subject to adjustment and ownership limitations, and a convertible promissory note in the principal amount of \$75,000. The Company failed to issue shares to Tarpon and in the first quarter of 2014 TCA rescinded its liabilities purchase agreement with Tarpon. As of September 30, 2015 the Company has accrued a liability of \$61,474 related to the Designs and Project Development

Corporation claim and is included in notes payable and the \$506,431 related to TCA has been included in convertible promissory notes.

On January 31, 2014, in conjunction with the settlement agreement outlined above, the Company issued Tarpon a convertible promissory note in the principal amount of \$75,000. The convertible note matures one year from the date of issuance with interest at 10% per annum. The convertible promissory note has no registration rights and shall be convertible into the common stock of the Company at any time at a conversion price equal to 75% of the low closing bid price for the twenty days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

An eviction notice was issued on October 8 by the landlord for 160 Dupont Street, Five Towns Realty Associates, Inc ( Five Towns Realty ). There is currently an outstanding balance of \$54,739 that is subject to a lawsuit and is included in accounts payable and accrued liabilities at March 31, 2015. The Company is currently in negotiations with Five Towns Realty to reach a settlement.

An action was commenced on March 22, 2012, in the Supreme Court of the New York for the County of Nassau, by Lazar, Sanders Thaler & Associates, LLP, a dissolved accounting firm of which Terry R. Lazar, the Company's former CFO was a member. Among the parties named as defendants were Mr. Lazar and the Company. The claim was made that the Company owed fees to the plaintiff and/or that such fees were paid to Terry Lazar who never forwarded them to the plaintiff. Mr. Lazar undertook the defense of the action on his behalf and on behalf of the Company.

The matter proceeded to inquest and the court awarded judgment to the plaintiff against the Company in the sum of \$25,000. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$36,613. An appeal has been taken from the judgment. The appeal has been perfected by the filing of the record and brief in the Supreme Court of the state of New York. As of September 30, 2015 the Company has accrued a liability of \$36,613 related to the judgment and is included in accounts payable and accrued liabilities.

On October 23, 2014, the Company received a notice, filed with the Office of the District Administrative Judge, 10th Judicial District, Nassau County, New York, of the Company's right to arbitrate a fee dispute with Steve Legum over \$12,194 of legal fees in connection with Mr. Legum's representation of the Company in the Levin Consulting Group matter. The Company did not file the Request for Fee Arbitration within the required 30 days of receipt of the notice, thereby forfeiting its right elect to resolve the dispute by arbitration. As of September 30, 2015 the Company has accrued a liability of \$12,194 related to the dispute and is included in accounts payable and accrued liabilities.

#### **NOTE 11 - STOCKHOLDERS' DEFICIENCY**

##### **a) Amendment to Articles of Incorporation**

On February 26, 2015, the Company filed with the Secretary of State of the State of Delaware an amendment to its Certificate of Incorporation increasing the number of shares of common stock that the Company is authorized to issue from 2,000,000,000 shares of common stock, par value \$.001 per share, to 10,000,000,000 shares of common stock, par value \$0.00001 per share. In addition the par value per share of the Company's preferred stock decreased to \$0.00001 per share as a result of the amendment.

The equity of the Company has been retroactively recast to reflect the decrease in the par value per share of the preferred and common shares and the increase in number of authorized common shares per the amendment.

##### **b) During the nine months ended September 30, 2015, the Company recorded the following transactions:**

##### **Debt**

During the nine months ended September 30, 2015, the Company issued a total of 432,895,711 shares of common stock upon the requests from note holders to convert principal plus accrued interest and fees totaling \$23,584 into the Company's common stock based on the terms set forth in the loan. The conversion rate was \$.00005 per share.

## **NOTE 12 PREFERRED STOCK**

The Company is authorized to issue 10,000,000 shares of preferred stock, par value \$0.00001 per share, issuable in series with rights, preferences, privileges and restrictions as determined by the Company's board of directors.

### Series H Convertible Preferred Stock

During the three months ended September 30, 2015, the Company issued an aggregate of 0.6 shares of Series H Preferred Stock with a stated value of \$15,000 to its Chief Executive Officer ( CEO ), as compensation per the terms of an agreement entered into with its CEO on February 6, 2015. The Company estimated the aggregate fair value of the 0.60 shares of Series H Preferred Stock issued to be approximately \$15,000 on the various dates of issuance and was recorded to compensation expense on the various dates of issuance.

During the nine months ended September 30, 2015, the Company issued an aggregate of 1.8 shares of Series H Preferred Stock with a stated value of \$15,000 to its Chief Executive Officer ( CEO ), as compensation per the terms of an agreement entered into with its CEO on February 6, 2015. The Company estimated the aggregate fair value of the 1.2 shares of Series H Preferred Stock issued to be approximately \$45,000 on the various dates of issuance and was recorded to compensation expense on the various dates of issuance.

### Series I Convertible Preferred Stock

On April 9, 2015, the number, designation, rights, preferences and privileges of the Series I Convertible Preferred Stock ( Series I Preferred Stock ) were established by the Board. The designation, rights, preferences and privileges that the Board established for the Series I Preferred Stock are set forth in a Certificate of Designations that was filed with the Secretary of State of the State of Delaware on April 9, 2015.

The Certificate of Designations for the Series I Preferred Stock provides for the issuance of up to 500 shares of Series I stock with a par value of \$0.00001 per share and a stated value of \$1,000 per share.

The Series I Preferred Stock is convertible at the option of the holder into such number of shares upon the conversion ratio equal to the aggregate stated value of the Series I Preferred Stock converted divided by \$0.002.

Holders of Series I Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors out of funds legally available therefor, and the Company shall accrue, annually in arrears at December 31 of each year, commencing on the Issuance Date, cumulative dividends on the Series I Preferred Stock at the rate per share (as a percentage of the Stated Value per share) equal to five percent (5%) per annum on the Stated Value, payable at the option of the Company in cash or common stock valued at the average of the closing trade prices per share of the sixty (60) trading days of the calendar year.

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series I Preferred Stock are entitled to receive out of the assets of the Company the stated value per share of Series I preferred stock then outstanding, plus all other amounts in respect thereof then due and payable, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series I Preferred Stock as to such payment or distribution.

#### Series J Convertible Preferred Stock

On April 9, 2015, the number, designation, rights, preferences and privileges of the Series J Convertible Preferred Stock ( Series J Preferred Stock ) were established by the Board. The designation, rights, preferences and privileges that the Board established for the Series J Preferred Stock are set forth in a Certificate of Designations that was filed with the Secretary of State of the State of Delaware on April 9, 2015.

The Certificate of Designations for the Series J Preferred Stock provides for the issuance of up to 500 shares of Series J stock with a par value of \$0.00001 per share and a stated value of \$1,000 per share.

The Series J Preferred Stock is convertible at the option of the holder into such number of shares upon the conversion ratio equal to the aggregate stated value of the Series J Preferred Stock converted divided by \$0.0005.

Holders of Series J Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors out of funds legally available therefor, and the Company shall accrue, annually in arrears at December 31 of each year, commencing on the Issuance Date, cumulative dividends on the Series J Preferred Stock at the rate per share (as a percentage of the Stated Value per share) equal to five percent (5%) per annum on the Stated Value, payable at the option of the Company in cash or common stock valued at the average of the closing trade prices per share of the sixty (60) trading days of the calendar year.

With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series J Preferred Stock, subject to the ownership limitation set forth in the Series J designation, shall vote together with the holders of Common Stock, on an as converted basis, without regard to class, except as to those matters on which separate class voting is required by applicable law or the Articles of Incorporation or bylaws.

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series J Preferred Stock are entitled to receive out of the assets of the Company the stated value per share of Series J preferred stock then outstanding, plus all other amounts in respect thereof then due and payable, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series J Preferred Stock as to such payment or distribution.

On February 6, 2015, the Company issued 325 shares of Series J Preferred Stock to its Chief Executive Officer as part of a debt restructuring. (See Note 9 *Troubled debt restructuring Convertible Notes and Notes Payable Officers & Directors* )

#### **NOTE 13: STOCK WARRANTS**

The following warrants were expired:

The nine months ended September 30, 2015	5,566,198
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The following warrants were cancelled:

The nine months ended September 30, 2015	6,431,944
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The following tables set forth information concerning the Company's warrant issuances and warrant balances outstanding as of, and during the three months ended September 30, 2015:

	Shares Underlying Warrants	Weighted Average Exercise Price	Intrinsic Value
Outstanding at December 31, 2014	209,756,376	\$ 0.01	-
Granted	50,000,000	\$.0001	\$4,839
Expired	(5,566,198)	0.055	-
Cancelled	(6,431,944)	0.012	-
Outstanding at September 30, 2015	247,758,234	0.01	\$4,839

The following is additional information with respect to the Company's warrants as of September 30, 2015:

Number of Warrants	Range of Exercise Price	Weighted Average Remaining Contractual Life (In Years)	Average Exercise Price	Currently Exercisable
176,807,055	\$0.00024-\$0.0096	2.49	\$ 0.0037	176,807,055
50,000,000	\$.0001	5.86	\$ 0.0001	50,000,000
18,317,049	\$0.0108-\$0.084	0.68	\$ 0.0315	18,317,049
2,574,606	\$0.1-\$0.1884	1.70	\$ 0.1139	2,574,606
59,524	\$0.84	0.20	\$ 0.8400	59,524
247,758,234				247,758,234

#### NOTE 14 CREDIT RISK

The Company maintains its checking and money market accounts in banks. Accounts at each bank are insured by the Federal Deposit Insurance Corporation ( FDIC ). At times, cash and cash equivalents may be uninsured or in deposit accounts that exceed the FDIC insurance limit.

Periodically, the Company evaluates the credit worthiness of the financial institutions and has determined the credit exposure to be negligible.

#### NOTE 15: SUBSEQUENT EVENTS



## **Issuance of Common Stock and Convertible Promissory Notes**

From September 30, 2015, through the issuance of this report, the Company did not issue any shares of common stock nor any convertible notes.

## **Definitive Information Statement filed with SEC for Capital Increase and Reverse Stock Split**

A Preliminary Information Statement was filed with the SEC on October 24, 2014, and the Definitive Information Statement on December 11, 2014, to notify the Company's stockholders that on October 24, 2014, our stockholders approved the following amendments (the "Amendments") to our Certificate of Incorporation: (1) a Reverse Stock Split of the Company's common stock at a ratio of not less than one-for-one hundred and not more than one-for-five hundred as determined by our Board of Directors (the "Reverse Stock Split"), subject to the Board's discretion to determine, without any further action by stockholders, not to proceed with a reverse stock split if it determines that a reverse stock split is no longer in the best interest of the Company and its stockholders, and (2) the authorization of an increase in the number of authorized shares of common stock from two billion (2,000,000,000) shares of common stock, par value \$.001 per share, to ten billion (10,000,000,000) shares of common stock, par value \$.00001 per share. The Amendment increasing our authorized common stock to 10,000,000,000 shares has become effective with the filing of the Certificate of Amendment with the Secretary of State of the State of Delaware. Following Board determination on March 27, 2015 that the Reverse Stock Split ratio would be 1:500, we filed on April 2, 2015 for approval of and an effective date for the Reverse Stock Split with the Financial Industry Regulatory Authority (FINRA). Currently, the Company is awaiting approval from FINRA for the reverse stock split to become effective.

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

### **Introductory Comment**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q, as well as our audited financial statements and related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (the "SEC") on June 5, 2015.

### **Note Regarding Forward-Looking Statements**

This quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). To the extent that any statements made in this Form 10-Q contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by the use of words such as anticipate, believe, continue, could, estimate, expect, hope, intend, may, plan, potential, would and variations of such words. Forward-looking statements are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements.

Readers of this Report on Form 10-Q should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause our actual results to differ materially from those provided in forward-looking statements. Readers should not place undue reliance on forward-looking statements contained in this Form 10-Q. We do not undertake any obligation to publicly update or revise any forward-looking statements we may make in this Form 10-Q or elsewhere, whether as a result of new information, future events or otherwise.

### **General**

#### **Overview and Recent Developments**

We have developed a patent pending PureSafe First Response Water System ( PureSafe FRWS ) that is self-contained and purifies essentially any type of raw water source or decontaminates most contaminated water without prior knowledge of the contaminants, including seawater. This system is uniquely mobile, by helicopter or transported by truck. The initial PureSafe FRWS prototype was developed using advanced Israeli water treatment technology. The original prototype was capable of producing 10,000 gallons of water per day, but could not desalinate sea water, and did not have a built in generator or water bagging capability. Adhering to the original treatment train and process, we have since built a 2nd prototype (FRWS unit). The FRWS unit can produce EPA compliant drinking water at the rate of 30,000 gallons per day, to provide drinking water to 45,000 people. This system has received Gold Seal Certification from the Water Quality Association in September 2010, was re-certified in April 2011 and January 2013, a significant accomplishment. In addition, the Nassau County Department of Health independently tested the PureSafe unit s water quality and the results exceeded all testing parameters. The FRWS-30K unit was designed to meet the output, ease of operation, mobility and water quality requirements as described in the Operational Requirements Document issued by the U.S Department of Homeland Security (2009) for emergency water supplies.

On October 6, 2014, the Company received from the U.S. Patent & Trademark Office a Notice of Allowance (for issuance as a patent) and Fee(s) Due with respect to our application (No. 12/100,137) for versatile water purification systems and methods, which application was filed April 9, 2008.

Under our Exclusive Sales and Marketing Agreement with GEM present and future distributors and representatives will be integrated with GEM s existing worldwide distributor network. GEM has appointed a Product Manager for our technology.

We have sold and delivered three FRWS units, one being sold to an end user in the oil and gas exploration business in Texas (delivered in Dec 2011), the second sold to the Department of Military and Veterans Affairs for the State of Alaska (delivered in the first quarter of 2012) and the third sold to the State of Vera Cruz, Mexico in the fourth quarter of 2012. All of the sold units were manufactured in our production facility.

Over the past several years we have demonstrated our FRWS system at several emergency preparedness conferences in New York and California, and numerous times at our offices in New York.

## Restructure of Agreements with Southridge LLC Group

On June 13, 2014, the Company entered into a one year consulting agreement (the "Consulting Agreement") with Tarpon Bay Partners, LLC ("Tarpon"), a company controlled by Southridge LLC ("Southridge"), for the period from the date of the agreement through September 30, 2015, pursuant to which Tarpon was issued an aggregate of 29 shares of the Corporation's Series H Convertible Preferred Stock (the "Series H Preferred Stock") as compensation for the general management and consulting services provided by Tarpon. We have restructured all financial arrangements as follows. Tarpon is the holder of convertible notes issued by the Corporation in the aggregate principal amount of \$312,394.54 (the "Tarpon Notes"); ASC Recap LLC ("ASC") is the holder of 25,375,000 shares of the Company's common stock (the "ASC Common Stock"); and Southridge Partners II, LP ("Southridge II") is the holder of convertible notes issued by the Company in the aggregate principal amount of \$47,500 ("Southridge II Notes"), the Tarpon Notes, the ASC Common Stock and the Southridge II Notes being referred to as the "Southridge Securities". The Company effective July 2, 2015 entered into an Exchange Agreement with Tarpon, ASC, Southridge II and Stephen Hicks, CEO of Southridge, collectively the "Southridge Parties", pursuant to which the Company issued to Tarpon a 10% Promissory Note due June 30, 2016, in exchange for (1) delivery to the Company and cancellation by the respective holders thereof of the Southridge Securities and the shares of Series H Preferred Stock held by Tarpon, and (2) the return to the Company for no consideration and cancellation of the outstanding 51 shares of Series G Preferred Stock, a super-voting series of preferred stock held by Stephen Hicks. Effective July 2, 2015, Stephen Hicks and Gilbert Steedley resigned as directors of the Company, and Stephen Hicks resigned as President and Henry Sargent, as Secretary, of the Company.

## Plan of Operations

Our plans for the next twelve months include:

Our marketing plan is based on the following key components:

**Strategic Alliances** We entered into an Engineering Package Agreement in January 2013 with ETG/Engineering Technologies Group, Inc. ETG will re-engineer and value engineer the system so that production can be outsourced. This should allow for the Company to meet future demands for the product. We also entered into a second agreement, with Global Equipment Marketing, Inc. (GEM). GEM will sell and market our products utilizing as a dba PureSafe Water System Sales.

**Direct Marketing and Sales** The marketing and sales plan will initially focus on short term developed business opportunities where money is currently available. The sales effort will be by both direct sales, development of an international dealer distribution network, and through the assistance of sales consultants and representatives.

Referencing our goals, we are also redirecting the sales effort so that it will no longer predominantly rely on one sector of the economy. We will now aim to expand our product to the oil and gas sector, as well as many government and municipalities; and agricultural and industrial businesses. We are reviewing the entire approach to the product with an aim to deepen and diversify our distribution channels, lower our cost of production, improve the Company's profit margin on sales and maintain an inventory of units for immediate sale.

At present our demonstration unit is on the road in a much more organized and deliberate approach to achieve maximum exposure through the balance of this year. We will be updating our marketing materials and directing more resources to our sales and marketing efforts.

No assurance can be given that any of the above items will be completed during the next twelve months or at any time in the future. Further, completion of all of such items does not guarantee that we will generate any revenue or become profitable at any time in the future.

#### **Results of Operations for the three months ended September 30, 2015 and 2014**

**Revenues.** We recognized \$51,000 and \$0 in revenues for the three months ended September 30, 2015 and 2014, respectively. In July 2015 Sustainable Resources Corporation, a wholly owned subsidiary of the Company, entered into an equipment operating lease with a third party for its portable PureSafe Water Purification Unit for a period of four months starting on July 1, 2015. The Company received two such payments and has accrued the third one. There were no such revenues in the period ended September 30, 2014.

**Cost of goods sold** for the three months ended September 30, 2015 and 2014 was \$2,111 and \$0, respectively.

**Operating expenses** for the three months ended September 30, 2015 were \$162,988 compared to \$784,788 for the three months ended September 30, 2014, a \$621,800 or 79% decrease.

The following is an analysis of certain operating expense fluctuations between the three months ended September 30, 2015 and 2014.

**Compensation and related benefits expenses, including directors fees** for the three months ended September 30, 2015 was \$45,000 compared to \$79,348 for the three months ended September 30, 2014, a \$34,348 or 43% decrease.

The Company paid no compensation to its directors during the three months ended March 31, 2015 and 2014.

Salaries expenses, excluding Stock-based compensation, decreased from \$79,348 for the three months ended September 30, 2014 to \$30,000 for the three months ended September 30, 2015. The decrease was a result of the elimination of cash salaries for management and clerical staff.

Stock Based Compensation, excluding directors fees, consulting fees and marketing expense, increased \$15,000 from \$0 for the three months ended September 30, 2014 to \$15,000 for the three months ended September 30, 2015. We issued 0.60 shares of series H preferred stock to our Company Chief Executive Officer during the three months ended September 30, 2015 and recorded \$15,000 stock-based compensation for such issuance.

**Insurance and Medical benefits** for the three months ended September 30, 2015 were \$4,416, compared to expenses during the three months ended September 30, 2014 of \$17,332. The decrease of \$12,916 or 75% was due to lower headcount.

**Research and development expenses** for the three months ended September 30, 2015 were \$2,826, compared to expenses during the three months ended March 31, 2014 of \$0. During the past three years, due to cash restrictions, we have curtailed the expenses on research and development. However, we understand the vital importance of research and development for our overall success. We are committed to continue to conduct research and development activities to ensure PureSafe FRWS has the most advanced technology within the water filtration equipment industry.

**Professional, legal and consulting fees expenses** for the three months ended September 30, 2015 were \$9,630, compared to \$331,696 for the three months ended September 30, 2014, a \$322,067 or 97% decrease. The main reason for the decrease was that the Company recorded \$225,000 of stock-based consulting fees representing 9 shares of Series H stock preferred stock issued to Tarpon for services received. In addition, legal and professional fees were approximately \$90,000 lower in the current period due to reduced fees for litigation and patent related costs.

**Occupancy** related expenses decreased \$221,630 from \$312,755 for the three months ended September 30, 2014 to \$91,125 for three months ended September 30, 2015. The fluctuation in occupancy related expenses in 2015 compared to the same period in 2014 is as a result of the following:

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Effective as of July 1, 2008, the Company entered into a seven-year lease for 5,300 square feet of space at 25 Fairchild Avenue in Plainview, New York. The facility is to serve as the Company's executive offices, sales office, showroom and an assembly area.

In March 2012 management exercised a Good Guy Clause in its lease and abandoned the space at 25 Fairchild Avenue.

On September 12, 2012, as a result of the Company's action, Fairchild Warehouse Associates, LLC (Fairchild), as plaintiff, filed suit for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, N.Y. 11803. An inquest began on December 10, 2014 to determine the amount of money damages due on Fairchild's claim and on March 3, 2015 the court awarded judgment to the plaintiff against the Company in the sum of \$887,929. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$1,086,993.

During the three months ended September 30, 2014, the Company recorded rent, rent related expenses and penalties of \$309,057 as a result of the judgment, which is included in occupancy expense in the consolidated statements of operations.

During the three months ended September 30, 2015 the Company recorded rent, rent related expenses and penalties of \$91,125 as a result of the judgment which is included in occupancy expense in the accompanying consolidated statements of operations.

**Other administrative and general expenses** decreased \$30,163 from \$40,154 for the three months ended September 30, 2014 to \$9,991 for the three months ended September 30, 2015, a 75% decrease. Due to cash restrictions we have curtailed spending on a combination of other administrative and general expenses that were not included in the above discussion.

### **Other Income (Expenses)-net**

We recognized \$64,530 in net non-operating income for the three months ended September 30, 2015, compared to net non-operating expenses of \$(1,370,753) for the three months ended September 30, 2014, a \$1,435,283 or 105% improvement.

The following is a detailed analysis for such increase:

Interest expense incurred during the three months ended September 30, 2015 and 2014 was \$220,027 and \$258,421, respectively, a \$38,394 or 15% increase.



The changes were due to the following:

	Three months ended		Three months ended		
	September 30, 2015		September 30, 2014		Difference
Accretion of debt discount on outstanding convertible issuances	\$ 129,963	\$	132,052	\$	(2,089)
Interest expense due to Derivative expense on new debt issuances	14,724		47,900		(33,176)
Accrual of interest on outstanding debt issuances	70,870		73,571		(2,701)
Accretion of Original Issue Discount	4,470		-		4,470
Interest expense for late issuance of shares	-		4,898		(4,898)
Total interest expense	\$ 220,026	\$	258,421	\$	(38,395)

Gain on debt restructure was \$307,508 and \$-0- for three months ended September 30, 2015 and 2014, respectively. See Note 5: Related Parties for more detail.

Changes in fair value of warrants and embedded conversion options for three months ended September 30, 2015 and 2014 were (\$22,951) and \$(1,114,900), respectively. The reduction in the expense was due to reduced stock price volatility.

### Results of Operations for the nine months ended September 30, 2015 and 2014

**Revenues.** We recognized \$53,294 and \$0 in revenues for the nine months ended September 30, 2015 and 2014, respectively. In July 2015 Sustainable Resources Corporation, a wholly owned subsidiary of the Company, entered into an equipment operating lease with a third party for its portable PureSafe Water Purification Unit for a period of four months starting on July 1, 2015. The Company received two such payments and has accrued the third one. There were no such revenues in the period ended September 30, 2014.

**Cost of goods sold** for the nine months ended September 30, 2015 and 2014 was \$2,111 and \$0, respectively.

**Operating expenses** for the nine months ended September 30, 2015 were \$684,896 compared to \$1,602,344 for the nine months ended September 30, 2014, a \$953,448 or 60% decrease.

The following is an analysis of certain operating expense fluctuations between the nine months ended September 30, 2015 and 2014.

**Compensation and related benefits expenses, including directors fees** for the nine months ended September 30, 2015 was \$201,564 compared to \$253,472 for the nine months ended September 30, 2014, a \$51,908 or 20% decrease.

The Company paid no compensation to its directors during the nine months ended September 30, 2015 and 2014.

Salaries expenses, excluding Stock-based compensation, decreased from \$253,472 for the nine months ended September 30, 2014 to \$156,564 for the nine months ended September 30, 2015. The decrease was a result of the elimination of cash salaries for management and clerical staff during the second quarter.

Stock Based Compensation, excluding directors fees, consulting fees and marketing expense, increased \$45,000 from \$0 for the nine months ended September 30, 2014 to \$30,000 for the three months ended September 30, 2015. We issued 1.8 shares of series H preferred stock to our Company Chief Executive Officer during the nine months ended September 30, 2015 and recorded \$45,000 stock-based compensation for such issuances.

**Insurance and Medical benefits** for the nine months ended September 30, 2015 were \$33,957, compared to expenses during the nine months ended September 30, 2014 of \$60,850. The decrease of \$26,893 or 44% was due to reduced headcount.

**Research and development expenses** for the nine months ended September 30, 2015 were \$4,857, compared to expenses during the nine months ended September 30, 2015 of \$676. During the past three years, due to cash restrictions, we have curtailed the expenses on research and development. However, we understand the vital importance of research and development for our overall success. We are committed to continue to conduct research and development activities to ensure PureSafe FRWS has the most advanced technology within the water filtration equipment industry.



**Professional, legal and consulting fees expenses** for the three months ended September 30, 2015 were \$89,126, compared to \$858,563 for the nine months ended September 30, 2014, a \$769,438 or 90% decrease. The main reasons for the decrease were the following expenses which incurred during the nine months ended September 30, 2014:

Company recorded \$425,000 of stock-based consulting fees represented by 17 shares of our series H preferred stock being issued to Tarpon for the nine months ended September 30, 2014.

The Company recorded \$225,000 of stock-based consulting fees representing 9 shares of Series H stock preferred stock issued to Tarpon for services received.

The Company incurred legal and professional fees of approximately \$100,000 for litigation and patent related costs.

**Occupancy** related expenses decreased \$59,584 from \$338,275 for the nine months ended September 30, 2014 to \$278,692 for the nine months ended September 30, 2015. See the Results of Operations for the Three Months Ended September 30, 2015 for the details about Occupancy Expense.

During the nine months ended September 30, 2014, the Company recorded rent, rent related expenses and penalties of \$309,057 as a result of the judgment, which is included in occupancy expense in the consolidated statements of operations.

During the nine months ended September 30, 2015 the Company recorded rent, rent related expenses and penalties of \$273,375 as a result of the judgment which is included in occupancy expense in the accompanying consolidated statements of operations.

**Other administrative and general expenses** decreased \$48,146 from \$86,807 for the nine months ended September 30, 2014 to \$38,661 for the three months ended September 30, 2015, a \$48,146 or 55% decrease. Due to cash restrictions we have curtailed spending on a combination of other administrative and general expenses that were not included in the above discussion.

**Other Income (Expenses)-net**

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We recognized \$842,756 in net non-operating income for the nine months ended September 30, 2015, compared to net non-operating expenses of \$(2,087,258) for the nine months ended September 30, 2014, a \$2,930,014 or 208% improvement.

The following is a detailed analysis for such increase:

Interest expense incurred during the nine months ended September 30, 2015 and 2014 was \$1,053,463 and \$716,326, respectively, a \$337,137 or 47% increase.

The changes were due to the following:

	Nine months ended September 30, 2015	Nine months ended September 30, 2014	Difference
Accretion of debt discount on outstanding convertible issuances	\$ 429,937	\$ 327,058	\$ 102,879
Interest expense due to Derivative expense on new debt issuances	384,113	157,700	226,413
Accrual of interest on outstanding debt issuances	206,913	213,670	(6,757)
Accretion of Original Issue Discount	5,500	-	5,500
Interest expense for late issuance of shares	27,000	17,898	9,102
Total interest expense	\$ 1,053,463	\$ 716,326	\$ 337,137

Gain on debt restructure was \$307,508 and \$-0- for the nine months ended September 30, 2015 and 2014, respectively. See Note 5: Related Parties for more detail.

Changes in fair value of warrants and embedded conversion options for three months ended September 30, 2015 and 2014 were \$1,588,711 and \$(1,373,500), respectively. The reduction in the expense was due to reduced stock price volatility.



## Liquidity and Capital Resources

As of September 30, 2015, we maintained a cash balance of \$-0- as compared to \$4,967 as of December 31, 2014.

Net cash used in operating activities during the nine months ended September 30, 2015 was \$230,635, compared to \$462,620 used during the nine months ended September 30, 2014, a \$231,585 or 50% improvement. During the past three years, due to cash restrictions, we have curtailed expenses on salaries, marketing, and research and development. Currently the Company generates limited revenues and relies on debt financings in-order to sustain operating activities. The Company expects cash from operations to remain negative until we start to generate adequate revenues.

Funds received from officers and directors loans and convertible loans during the three months ended September 30, 2015 and 2014 were \$3,490 and \$11,300, respectively; cash received from issuing convertible promissory notes was \$258,238 and \$293,500, respectively; and cash received from issuing promissory notes was \$0 and \$196,800, respectively. During the nine months ended September 30, 2015 and 2014 cash used to repay officers and directors notes was \$0 and \$11,300, respectively; and cash used to repay notes payable was \$36,111 and \$6,800, respectively.

From the above activities, net cash provided by financing activities during the nine months ended September 30, 2015 and 2014 was \$225,669 and \$483,500, respectively.

Aggregating operating, investing and financing activities from above, net cash provided (used) for the nine months ended September 30, 2015 and 2014 was \$(4,967) and \$20,880, respectively.

On February 6, 2015, the Company entered into an agreement in order to satisfy outstanding liabilities of the Company due to our Chief Executive Officer, Leslie Kessler ( Kessler ), dating back to 2007. In the settlement, Ms. Kessler and the Company have agreed, in exchange for the issuance of 325 shares of convertible preferred stock ( Series J Preferred Stock ) to Ms. Kessler, that all deferred compensation owing to Ms. Kessler and all loan obligations of the Company due to Ms. Kessler would be terminated, apart from a \$17,500 loan to the Company by Ms. Kessler, which remains outstanding. (See Financial Statement - Note 9 which is included in this document)

## Going Concern

At September 30, 2015, we had a working capital deficit of approximately \$6.7 million. We continue to suffer recurring losses from operations and have an accumulated deficit since inception of approximately \$52 million. These

conditions raise substantial doubt about our ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to bring the Company's products to market and generate revenues, control costs, and obtain additional financing, as required and on reasonable terms. The Company's plans with respect to these matters include restructuring its existing debt and raising additional financing through issuance of preferred stock, common stock and/or debt.

The Company's goal is to generate the sales of the Company's flagship mobile water purification product and to ultimately diversify its product line through ingenuity and/or acquisition. In order to accomplish these goals we are redirecting the sales effort so that the Company will no longer predominantly focus on the government sector, a target with historically long lead times. In addition the Company is reviewing the entire approach to the product with an aim to 1) deepen and diversify our distribution channels, 2) lower our cost of production, 3) improve the Company's profit margin on and 4) maintain an inventory of units for immediate sale.

The Company requires immediate capital to remain viable. The Company can give no assurance that such financing will be available on terms advantageous to the Company, or at all. Should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain or all of its operational activities. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

As of November 25, 2015 the Company has a cash overdraft of approximately \$(2,000).



### **Effects of Recent Accounting Policies**

The FASB and the SEC have issued certain accounting standards updates and regulations that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during 2015 or 2014, and does not believe that any of those pronouncements will have a significant impact on the Company's consolidated financial statements at the time they become effective.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of the statements in accordance with these principles requires that we make estimates, using available data and our judgment, for such things as valuing assets, accruing liabilities and estimating expenses. The following is a list of what we believe are the most critical estimations that we make when preparing our consolidated financial statements.

### **Stock-Based Compensation**

We report stock-based compensation under ASC 718. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their fair values.

We account for equity instruments issued to non-employees as compensation in accordance with the provisions of ASC 718 and 505, which require that each such equity instrument is recorded at its fair value on the measurement date, which is typically the date the services are performed.

### **Derivative Liabilities**

In connection with the issuance of certain convertible promissory notes, the terms of the convertible notes included an embedded conversion feature; which provided for the settlement of certain convertible promissory notes into shares of common stock at a rate which was determined to be variable with no floor. The Company determined that the conversion feature was an embedded derivative instrument pursuant to ASC 815 - Derivatives and Hedging

The accounting treatment of derivative financial instruments requires that the Company record the conversion option and related warrants, if applicable, at their fair values as of the inception date of the agreements and at fair value as of each subsequent balance sheet date. As a result of entering into certain convertible promissory notes, the Company is required to classify all other non-employee warrants as derivative liabilities and record them at their fair values at each balance sheet date because the Company could not determine it has enough authorized shares to settle the contracts. Any change in fair value was recorded as a change in the fair value of derivative liabilities for each reporting period at each balance sheet date. The Company reassesses the classification at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

The fair value of conversion options that are convertible at a variable conversion price are required to be valued using a Binomial Lattice Model. The Company determined the fair value of the conversion option using either the Black-Scholes Valuation Model or the Binomial Lattice Model to be materially the same.

The Black-Scholes Valuation Model is used to estimate the fair value of the warrants and conversion option. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the instrument granted.

## **Income taxes**

We account for income taxes under guidance provided by ASC 740 *Income Taxes* which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as unrecognized benefits. A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740.

In accordance with ASC 740, interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as *Interest expense, net* in the consolidated statements of operations. Penalties would be recognized as a component of *General and administrative expenses*.



Our uncertain tax positions are related to tax years that remain subject to examination by relevant tax authorities. We file income tax returns in the United States (federal) and in various state and local jurisdictions. We are no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2010.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

This Item is not applicable to smaller reporting companies.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer ( CEO ) and Principal Financial Officer ( PFO ), we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer has concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Our management identified the following material weaknesses as of September 30, 2015.

Entity Level. We recognize the need to provide leadership and guidance to our employees regarding the maintenance and preparation of financial matters. There is a weakness due to the fact that there are not documented policies and procedures in place for certain procedures. In addition we have not established an independent audit committee and the board of directors have assumed this responsibility.

Financial Reporting. There needs to be a more structured mechanism for evidence of review in the financial reporting process. The following procedures have been implemented since the beginning of 2009, (a) PFO signs and date all financial documents upon the completion of reviewing such documents, (b) all approval or permission will be evidenced by either email or in writing. No oral approval or permission is allowed, (c) General Journal is recorded only after PFO approves (in writing) such entry and (d) monthly bank reconciliations must complete within 15 days after month ends and reviewed by PFO 5 days after the completion of bank reconciliation. Due to our limited personnel and resources we are not always in compliance with these procedures.

Complex Accounting Transactions: Due to our limited resources and personnel management has concluded that, as of September 30, 2014, a material weakness exists because the Company does not currently employ a sufficient number of qualified accounting personnel to ensure proper and timely evaluation of complex accounting, tax, and disclosure issues that may arise during the course of the Company's business.

Confidential Reporting Mechanism: We recognize that we need to provide leadership and guidance to our employees, clients and vendors regarding business ethics and professional conduct. A confidential reporting mechanism must be in place for anonymous reporting of a breach to these ethics that will enable prompt and thorough investigation. In January 2009, we implemented a whistleblower program. A toll-free number, as well as an email address, were posted on the homepage of our website to encourage our employee, contractors, sub-contractors, vendors to report any unethical or illegal behavior they suspect. Due to our limited personnel and resources we do not have an independent audit committee overseeing this process.

Segregation of Duties: Our administrative staff consists of officers, one Controller and one receptionist and segregation of duties conflicts exist with our day to day operations. Therefore, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties.

Management intends to address these material weakness by reviewing the Company's accounting and finance processes to identify any improvements thereto that might enhance the Company's internal control over financial reporting and determine the feasibility of implementing such improvements and by seeking qualified employees and/or outside consultants who possess the knowledge needed to eliminate this weakness with our available resources. To mediate the material weaknesses management has increased its level of monitoring activities and has prepared additional analyses of key financial accounts. In addition the Company hires an outside consultant to assist management with its annual and quarterly SEC reporting. The Company's ability to remediate these weaknesses, however, has been delayed or limited by resource constraints. Upon receiving adequate financing the Company plans to increase its controls in these areas by hiring more experienced employees in financial reporting, establishing an audit committee and formally documenting the controls the Company has in place.



A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part on certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Given these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the first, second and third quarter of our 2014 fiscal year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our Principal Financial Officer resigned from the Company on February 15, 2014. Upon the resignation of our PFO the Company's CEO took over the role of the PFO and the Company hired an outside consultant to assist management with its annual and quarterly SEC reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows. The Company has the following litigation outstanding.

The Company has remained a defendant in a lawsuit since September 12, 2012 in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC ( Fairchild ), as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, New York 11803. An inquest began on December 10, 2014 to determine the amount of money damages due on Fairchild's claim and on March 3, 2015 the court awarded judgment to the plaintiff against the Company in the sum of \$887,929. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$892,042. Interest on the judgment will continue to accrue at the rate of 9% per annum until satisfied. As of March 31, 2015 the Company has accrued a liability of \$904,743 related to the judgment and is included in accounts payable and accrued liabilities at March 31, 2015.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP ( TCA ), providing for the issuance of \$275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. On October 4, 2013, at the request of the lender due to default, the Company converted \$303,499 of convertible notes and accrued interest into a new convertible note in the amount of \$531,431. The increase in principal was due to amounts charged by the lender for penalties, interest, legal and other fees. The newly issued note bears interest at rates of 18% per annum and is due on demand. The lender may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under the Note into shares of the Company's common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company's common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 4.99% of our outstanding common stock upon any conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. On March 10, 2014, TCA accelerated the outstanding principal balance, interest, calculated at the default rate of 18%, and all sums due under the original note and any amendments. In August 2014 a default final judgment was entered against the Company concluding that TCA is entitled to damages in the amount of \$610,349, to foreclose upon the security interests, and to recover attorneys' fees and costs incurred by TCA. In addition prejudgment interest shall be assessed at a rate of 18% per annum and post judgment interest shall be assessed at a rate of 4.75% per annum. As of March 31, 2015 the Company has accrued a liability of \$724,340 related to the TCA claim and is included in convertible notes payable.

On November 27, 2013, the Company entered into a settlement agreement with Tarpon Bay Partners LLC ( Tarpon ), a related party. The manager of Tarpon is Stephen Hicks, the President of the Company. Tarpon previously purchased outstanding liabilities of the Company from TCA in the amount of \$506,431 and Designs and Project Development Corporation (a former landlord) in the amount of \$56,429. Per the terms of the settlement the Company was to issue Tarpon shares of common stock in one or more tranches as necessary, and subject to adjustment and ownership limitations, and a convertible promissory note in the principal amount of \$75,000. The Company failed to issue shares to Tarpon and in the first quarter of 2014 TCA rescinded its liabilities purchase agreement with Tarpon. As of March 31, 2015 the Company has accrued a liability of \$61,474 related to the Designs and Project Development Corporation claim and is included in notes payable and the \$506,431 related to TCA has been included in convertible promissory notes.



On January 31, 2014, in conjunction with the settlement agreement outlined above, the Company issued Tarpon a convertible promissory note in the principal amount of \$75,000. The convertible note matures one year from the date of issuance with interest at 10% per annum. The convertible promissory note has no registration rights and shall be convertible into the common stock of the Company at any time at a conversion price equal to 75% of the low closing bid price for the twenty days prior to conversion. The conversion price is subject to anti-dilution protection and down round provisions in the event that the Company issues additional equity securities at a price less than the conversion price. The Company may prepay the note at 150% of the entire outstanding principal amount of the note plus any accrued but unpaid interest.

An eviction notice was issued on October 8 by the landlord for 160 Dupont Street, Five Towns Realty Associates, Inc ( Five Towns Realty ). There is currently an outstanding balance of \$54,739 that is subject to a lawsuit and is included in accounts payable and accrued liabilities at September 30, 2015. The Company is currently in negotiations with Five Towns Realty to reach a settlement.

An action was commenced on March 22, 2012, in the Supreme Court of the New York for the County of Nassau, by Lazar, Sanders Thaler & Associates, LLP, a dissolved accounting firm of which Terry R. Lazar, the Company's former CFO was a member. Among the parties named as defendants were Mr. Lazar and the Company. The claim was made that the Company owned fees to the plaintiff and/or that such fees were paid to Terry Lazar who never forwarded them to the plaintiff. Mr. Lazar undertook the defense of the action on his behalf and on behalf of the Company.

The matter proceeded to inquest and the court awarded judgment to the plaintiff against the Company in the sum of \$25,000. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$36,613. An appeal has been taken from the judgment. The appeal has been perfected by the filing of the record and brief in the Supreme Court of the state of New York. As of September 30, 2015 the Company has accrued a liability of \$36,613 related to the judgment and is included in accounts payable and accrued liabilities at September 30, 2015.

On October 23, 2014, the Company received a notice, filed with the Office of the District Administrative Judge, 10th Judicial District, Nassau County, New York, of the Company's right to arbitrate a fee dispute with Steve Legum over \$12,194 of legal fees in connection with Mr. Legum's representation of the Company in the Levin Consulting Group matter. The Company did not file the Request for Fee Arbitration within the required 30 days of receipt of the notice, thereby forfeiting its right elect to resolve the dispute by arbitration. As of September 30, 2015 the Company has accrued a liability of \$12,194 related to the dispute and is included in accounts payable and accrued liabilities at September 30, 2015.

#### **ITEM 1A. RISK FACTORS.**

This Item is not applicable to smaller reporting companies.

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

The following table sets forth the sales of unregistered securities by the Company in the quarterly period ended March 31, 2015.

<b>Date</b>	<b>Title and Amount<sup>(1)</sup></b>	<b>Purchaser</b>	<b>Principal Underwriter</b>	<b>Total Offering Price/ Underwriting Discounts</b>
January 7, 2015	172,654,147 reset shares of common stock from October 14, 2014 note conversion.	Private Investor	NA	\$17,265/NA
January 9, 2015	48,456,897 reset shares of common stock from October 14, 2014 note conversion.	Private Investor	NA	\$4,845/NA
January 9, 2015	125,790,000 shares of common stock issued upon conversion of principal of and accrued interest on convertible note.	Private Investor	NA	\$6,289/NA
January 15, 2015	Convertible promissory note in the principal amount of \$10,500 issued to Tarpon Bay Partners, LLC, with a maturity of January 31, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	Tarpon	NA	\$10,500/NA
January 23, 2015	Convertible promissory note in the principal amount of \$10,500 issued to Tarpon Bay Partners, LLC, with a maturity of December 31, 2015, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.		NA	\$18,500/NA
January 23, 2015	Convertible promissory note in the principal amount of \$850 issued to Tarpon Bay Partners, LLC, with a maturity of December 31, 2015, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.		NA	\$850/NA
February 3, 2015	Convertible promissory note in the principal amount of \$50,000, with a maturity of August 31, 2015, interest at the rate of 8%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 20 trading days prior to conversion.	Private Investor	NA	\$50,000/NA
February 11, 2015	Convertible promissory note in the principal amount of \$11,000 issued to Tarpon Bay Partners, LLC, with a maturity of January 31, 2016, interest at the rate of		NA	\$11,000/NA

	10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.		
February 23, 2015	Convertible promissory note in the principal amount of \$25,000 issued to Tarpon Bay Partners, LLC, with a maturity of February 29, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$25,000/NA
March 5, 2015	Convertible promissory note in the principal amount of \$17,500 issued to Tarpon Bay Partners, LLC, with a maturity of March 31, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$17,500/NA

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March 18, 2015	Convertible promissory note in the principal amount of \$13,000 issued to Tarpon Bay Partners, LLC, with a maturity of March 31, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$13,000/NA
April 6, 2015	Convertible promissory note in the principal amount of \$23,000, with a maturity of April 30, 2016, interest at the rate of 8%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 20 trading days prior to conversion.	NA	\$23,000/NA
April 17, 2015	Convertible promissory note in the principal amount of \$30,000 issued to Tarpon Bay Partners, LLC, with a maturity of April 30, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$30,000/NA
April 29, 2015	Convertible promissory note in the principal amount of \$15,000 issued to Tarpon Bay Partners, LLC, with a maturity of February 29, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$15,000/NA
May 14, 2015	Convertible promissory note in the principal amount of \$15,000 issued to Tarpon Bay Partners, LLC, with a maturity of May 31, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$15,000/NA
May 20, 2015	Convertible promissory note in the principal amount of \$5,500 issued to Tarpon Bay Partners, LLC, with a maturity of May 31, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$5,500/NA
May 28, 2015	Convertible promissory note in the principal amount of \$15,000 issued to Tarpon Bay Partners, LLC, with a maturity of May 31, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$15,000/NA
May 28, 2015	Convertible promissory note in the principal amount of \$3,888 issued to Tarpon Bay Partners, LLC, with a maturity of May 31, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.	NA	\$3,888/NA
July 15, 2015	Convertible promissory note in the principal amount of \$5,000 issued to a private investor, with a maturity of	NA	\$5,000/NA

June 30, 2016, interest at the rate of 10%, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 20 trading days prior to conversion. Investor additionally received 50,000,000 warrants for a period of six years at an exercise price of \$.0001

July 23, 2015	Convertible promissory note in the principal amount of \$5,000 issued to Tarpon Bay Partners, LLC, with a maturity of June 30, 2016, interest with no interest rate, and convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 20 trading days prior to conversion.	NA	\$5,000/NA
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(1)

The issuances to executives, employees, lenders, consultants and investors are viewed by the Company as exempt from registration under the Securities Act of 1933, as amended ( "Securities Act" ), alternatively, as transactions either not involving any public offering, or as exempt under the provisions of Regulation D promulgated by the SEC under the Securities Act.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The following exhibits are being filed as part of this Quarterly Report on Form 10-Q.

<b>Exhibit Number</b>	<b>Description</b>
31*	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith

\*\* Furnished herewith

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Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

**SEC Ref.**

<b>No.</b>	<b>Title of Document</b>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

The XBRL related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed filed or a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

**SIGNATURES**

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.

**PureSafe Water Systems, Inc.**

Dated: November 25, 2015

By: /s/ Leslie J. Kessler

Leslie J. Kessler

Chief Executive Officer and Principal Financial Officer



