PureSafe Water Systems, Inc.
Form 10-Q
March 27, 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, 2014

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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.)
35 East Mall, Plainview, New York (Address of principal executive offices)	**11803** (Zip Code)

(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 X . 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 X . 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 X .

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

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of March 27, 2015, 2,090,882,330 shares of the common stock of the registrant were issued and outstanding.

PURESAFE 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 restated consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2013.

The results of operations for the three and nine months ended September 30, 2014 and 2013 are not necessarily indicative of the results for the entire fiscal year or for any other period.

PureSafe Water Systems, Inc. and Subsidiary
Condensed Consolidated Balance Sheets

	September 30, 2014 (unaudited)		December 31, 2013	
Assets				
Current Assets				
Cash	$	23,079	$	2,199
Inventories		141,636		141,636
Prepaid expenses and other current assets		2,657		35,437
Total Current Assets		167,372		179,272
Property and equipment, net of accumulated depreciation of $179,290 and $179,290, respectively		-		-
Patents and trademarks, net of accumulated amortization of $52,497 and $47,919, respectively		54,844		59,422
Other assets		23,695		33,500
Total Assets	**$**	**245,911**	**$**	**272,194**
Liabilities and Stockholders' Deficiency				
Current Liabilities:				
Accounts payable and accrued expenses	$	1,343,704	$	1,209,319
Accrued compensation		1,371,132		1,267,382
Accrued consulting and director fees		144,000		144,000
Notes payable to officer and director (including accrued interest of $234,354 and $193,703, respectively)		867,904		827,254
Convertible promissory notes (including accrued interest of $280,320 and $154,528 and net of debt discount of $261,923 and $210,781, respectively)		1,555,868		1,238,838
Promissory notes payable (including accrued interest of $264,477 and $240,807 respectively)		794,323		593,153
		1,916,500		299,000

Fair value of detachable warrants and conversion option		
Accrued dividends payable	190,328	190,328
Common stock to be issued	-	38,423
Total Current Liabilities	8,183,759	5,807,697
Total Liabilities	8,183,759	5,807,697
Commitments and Contingencies	-	-
Stockholders' Deficiency:		
Preferred stock par value $0.00001 par value; 10,000,000 shares authorized;		
184,221 and 184,144 shares issued and outstanding (liquidation preference $3,756,726 and $3,025,450, as of September 30, 2014 and December 31, 2013, respectively)	2	2
Common stock par value $0.00001: 10,000,000,000 shares authorized;		
1,346,187,330 shares issued and 1,346,182,930 shares outstanding at September 30, 2014; 934,171,800 shares issued and 934,167,400 shares outstanding at December 31, 2013	13,461	9,342
Additional paid in capital	44,012,562	42,729,424
Treasury stock, at cost, 4,400 shares of common stock	(5,768)	(5,768)
Accumulated deficit	(51,958,105)	(48,268,503)
Total Stockholders' Deficiency	(7,937,848)	(5,535,503)
Total Liabilities and Stockholders' Deficiency	**$ 245,911**	**$ 272,194**

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

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Sales	$ -	$ -	$ -	$ -
Cost of Sales	-	51,471	-	51,471
Gross Profit (Loss)	-	(51,471)	-	(51,471)
Operating expenses:				
Compensation and related benefits, including stock-based compensation of $0 and $57,000 for the three months and $2,810 and $478,700 for the nine months ended September 30, 2014 and 2013, respectively	79,348	263,113	253,472	1,071,181
Insurance and medical benefits	17,332	-	60,850	33,723
Research and development	-	6,143	676	52,825
Professional, legal and consulting fees, including stock-based compensation of $225,000 and $0 for the three months and $650,000 and $257,000 for the nine months ended September 30, 2014 and 2013, respectively	331,696	30,759	858,563	309,777
Marketing	3,503	-	3,701	25,835
Occupancy	312,755	47,169	338,275	168,902
Loss on sale/abandonment of fixed assets	-	21,720	-	14,580
Other administrative and general	40,154	109,270	86,807	213,833
Total operating expenses	784,788	478,174	1,602,344	1,890,656
Loss from operations	(784,788)	(529,645)	(1,602,344)	(1,942,127)

Other income (expense):				
Interest income	-	5,099	-	15,131
Other income	2,568	-	2,568	23,538
Interest expense, including interest to related parties of $15,447 and $17,518 for the three months and $45,692 and $52,684 for the nine months ended September 30, 2014 and 2013, respectively	(258,421)	(439,135)	(716,326)	(665,554)
Change in fair value of derivative liabilities	(1,114,900)	803,600	(1,373,500)	253,500
Total Other Income (Expense)	(1,370,753)	369,564	(2,087,258)	(373,385)
Net Loss	(2,155,541)	(160,081)	(3,689,602)	(2,315,512)
Dividend on preferred stock	(27,075)	(27,075)	(81,225)	(81,225)
Net Loss Attributable to Common Stockholders	**$ (2,182,616)**	**$ (187,156)**	**$ (3,770,827)**	**$ (2,396,737)**
Net Loss Attributable to Common Stockholders Per Share basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average number of shares outstanding	1,124,200,104	988,961,818	1,104,569,253	882,231,634

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

PureSafe Water Systems, Inc. and Subsidiary
Condensed Consolidated Statement of Stockholders' Deficiency
For the Nine Months Ended September 30, 2014

	Preferred stock		Common stock		Additional Paid-In Capital	Treasury Stock at Cost	Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount				
Balance, December 31, 2013	184,144	$ 2	934,171,800	$ 9,342	$ 42,729,424	$ (5,768)	$ (48,268,503)	$ (5,535,503)
Common stock issued for cashless warrant exercise	-	-	526,315	5	(5)	-	-	-
Common stock issued for settlement of liabilities	-	-	36,748,182	367	38,056	-	-	38,423
Common stock issued for settlement of notes payable	-	-	11,363,636	114	12,386	-	-	12,500
Common stock issued for settlement of convertible debt	-	-	335,449,073	3,354	222,615	-	-	225,969
Common stock issued for penalty shares	-	-	27,928,324	279	65,376	-	-	65,655
Reclassification of derivative liability	-	-	-	-	291,900	-	-	291,900
Preferred stock issued for services	77	-	-	-	652,810	-	-	652,810

Net loss	-	-	-	-		-	(3,689,602)	(3,689,602)
Balance, September 30, 2014	**184,221**	**$ 2**	**1,346,187,330**	**$ 13,461**	**$ 44,012,562**	**$ (5,768)**	**$ (51,958,105)**	**$ (7,937,848)**

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

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

	For the Nine Months Ended September 30, 2014	September 30, 2013
Cash Flows From Operating Activities:		
Net loss	$ (3,689,602)	$ (2,315,512)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	-	14,434
Amortization of patents and trademarks	4,578	4,577
Abandonment of fixed assets	-	21,866
Gain on sale of fixed assets	-	(7,286)
Loss on abandonment of inventory	-	51,471
Interest expense - amortization of deferred financing	9,805	16,095
Interest expense - penalty interest	17,898	10,725
Interest expense - stock based compensation, derivative liabilities	-	4,500
Professional fees - note conversions	1,974	-
Stock based compensation	652,810	731,200
Deferred rent	-	(7,050)
Interest receivable	-	(15,131)
Accretion of debt discount	327,058	196,728
Interest expense - derivative liabilities	157,700	-
Change in fair value of warrants and embedded conversion option	1,373,500	(253,500)
Changes in assets and liabilities:		
Prepaid expenses and other current assets	32,780	(8,035)
Inventories	-	129,611
Customer deposits	-	(149,588)
Other assets	-	(13,942)
Accounts payable, accrued expenses, accrued interest, accrued dividends, accrued compensation, accrued consulting and director fees, and other current liabilities	648,879	676,685
Net Cash Used in Operating Activities	(462,620)	(912,152)
Cash Flows From Investing Activities:		
Patent costs	-	(7,456)
Proceeds from sale of property and equipment	-	20,000
Net Cash Provided by Investing Activities	-	12,544
Cash Flows From Financing Activities:		

Cash proceeds from sale of common stock		-		570,800
Cash proceeds from exercise of warrants		-		64,514
Cash proceeds from the exercise of warrants, common stock to be issued		-		27,923
Cash proceeds from convertible promissory notes		293,500		285,000
Repayment of convertible notes payable		-		(32,500)
Cash proceeds from promissory notes, officers and directors		11,300		9,051
Repayment of officers and directors loans		(11,300)		(48,500)
Cash proceeds from notes payable		196,800		10,000
Repayment of notes payable		(6,800)		(14,200)
Net Cash Provided by Financing Activities		483,500		872,088
Net increase (decrease) in cash		20,880		(27,520)
Cash at beginning of period		2,199		63,571
Cash at end of the period	**$**	**23,079**	**$**	**36,051**

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Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	682	$	11,939
Non-Cash Investing and Financing Activities:				
Common stock issued for the settlement of liabilities	$	86,179	$	553,835
Common stock issued for settlement of convertible debt	$	223,996	$	-
Common stock issued for settlement of note	$	12,500	$	-
Reclassification of derivative liabilities to equity	$	291,900	$	100,000
Conversion of accrued liabilities to convertible notes	$	150,000	$	-
Debt discount recorded on convertible debt and warrants accounted for as derivative liabilities	$	378,200	$	-
Conversion of notes payable to convertible notes payable	$	-	$	39,500

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

PureSafe Water Systems Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 Plainview, 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 nine month period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013, filed with the Securities and Exchange Commission on October 23, 2014.

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:

Name of consolidated subsidiary or entity	**State or other jurisdiction of incorporation or organization**	**Date of incorporation or formation (date of acquisition, if applicable)**	**Attributable interest**
PureSafe Manufacturing and Research Corporation	Delaware	September 29, 2009	100%

The condensed consolidated financial statements include all accounts of the Company and consolidated subsidiaries and/or entities as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013.

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 consolidated financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

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. As of September 30, 2014, the inventory has been written down to its 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 $2,026 and $11,054 and $9,805 and $16,095 for the three and nine months ended September 30, 2014 and 2013, respectively.

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:

	For the Nine Months Ended September 30,	
	2014	**2013**
Assumptions:		
Risk-free interest rate	0.02-1.78%	0.36-2.02%
Expected life	.01 - 5 years	3 years
Expected volatility	165%-176%	125%-175%
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 three and nine months ended September 30, 2014 and 2013 the Company recorded stock based compensation of $225,000 and $57,000 and $652,810 and $731,200, 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, 2014 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 futures 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 and nine months ended September 30, 2014 and 2013.

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 $0 and $6,143 and $676 and $52,825 for the three and nine months ended September 30, 2014 and 2013, 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 did not identify any recognized or non-recognized subsequent events that would require adjustment or disclosure in the consolidated financial statements.

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 of approximately $3,700,000 for the nine months ended September 30, 2014. The Company has a working capital deficit of approximately $8.0 million as of September 30, 2014. The Company continues to incur recurring losses from operations and has an accumulated deficit since inception of approximately $52.0 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. On April 2, 2014, The Company announced that Stephen Hicks and Gilbert Steedley were appointed to the Board of Directors and that Stephen Hicks was appointed President of the Company. Henry Sargent was appointed Vice President and Secretary.

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, 2014, the Company has issued approximately $15,000 of notes payable and approximately $273,000 of convertible notes payable. From October 1, 2014 until March 27, 2015, the Company issued 523,583,956 shares of common stock for the settlement of $35,700 loan principal plus $5,885 accrued interest, and fees. As of March 27, 2015 the Company has cash of approximately $1,000 available for use.

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 2014 or 2013, 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	**Relationship**
Southridge LLC (Southridge) Southridge Partners II LP (Southridge II)	An entity of which the President and member of the board of directors of the Company is the Chief Executive Officer.

	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.

NOTE 6: INVENTORIES

Inventories consist of the following at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Finished Goods	$ 141,636	$ 141,636
Total	$ 141,636	$ 141,636

NOTE 7: NET LOSS PER SHARE OF COMMON STOCK.

Basic loss per share was computed using the weighted average number of outstanding common shares. Diluted loss per share includes the effect of dilutive common stock equivalents from the assumed exercise of options, warrants, convertible preferred stock and convertible notes. Common stock equivalents were excluded in the computation of diluted loss per share since their inclusion would be anti-dilutive.

Total shares issuable upon the exercise of warrants and conversion of preferred stock and convertible promissory notes for the nine months ended September 30, 2014 and 2013 were as follows:

	September 30,	
	2014	**2013**
Warrants	185,949,049	172,317,850
Convertible promissory notes	4,748,415,597	86,967,298
Convertible preferred stock	462,584,721	1,545,760
Total	5,396,949,367	260,830,908

For the three and nine months ended September 30, 2014 and 2013, 143,661,061 and 107,143,531 and 133,691,743 and 92,645,445 warrants, respectively were included in loss per share as their exercise price was determined to be nominal.

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 partic