GTX CORP
Form 10-Q
November 15, 2013

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
(Mark one)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from ________ to ________

Commission file number **000-53046**

GTX Corp

(Exact name of registrant as specified in its charter)

Nevada	**98-0493446**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

117 W. 9th Street, Suite 1214, Los Angeles, CA, 90015
(Address of principal executive offices) (Zip Code)

(213) 489-3019
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **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. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller reporting company [**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**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 129,349,252 common shares issued and outstanding as of November 14, 2013.

GTX CORP AND SUBSIDIARIES

For the quarter ended September 30, 2013

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PART I

ITEM 1. FINANCIAL STATEMENTS

GTX CORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,497	$ 30,649
Accounts receivable, net	2,718	6,069
Inventory	2,246	1,557
Other current assets	84,113	8,113
Total current assets	146,574	46,388
Property and equipment, net	50,538	108,635
Intangible assets	75,972	25,972
Total assets	$ 273,084	$ 180,995
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 318,028	$ 231,633
Accrued expenses - related parties	367,958	392,834
Deferred revenues	21,057	28,722
Short-term debt	-	23,000
Short-term debt - related party	15,000	-
Convertible promissory note, net of discount	7,437	3,541
Derivative liabilities	31,655	30,380
Total current liabilities	761,135	710,110
Long-term convertible debt	277,735	-
Long-term derivative liabilities	319,393	-
Total liabilities	1,358,263	710,110
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
	120,511	85,401

Common stock, $0.001 par value; 2,071,000,000 shares authorized; 120,510,827 and 85,401,372 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively				
Additional paid-in capital		13,849,639		13,316,439
Accumulated deficit		(15,055,329)		(13,930,955)
Total stockholders’ deficit		(1,085,179)		(529,115)
Total liabilities and stockholders’ deficit	$	273,084	$	180,995

See accompanying notes to consolidated financial statements.

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GTX CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months ended September 30, 2013	Three Months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Revenues	$ 26,198	$ 45,062	$ 121,610	$ 309,922
Cost of goods sold	22,751	23,898	69,283	256,974
Gross margin	3,447	21,164	52,327	52,948
Operating expenses				
Wages and professional fees	198,241	248,424	603,831	808,174
General and administrative	33,132	41,222	126,513	253,420
Total operating expenses	231,373	289,646	730,344	1,061,594
Loss from operations	(227,926)	(268,482)	(678,017)	(1,008,646)
Other income/(expenses)				
Finance costs	(200,000)	(2,250)	(200,000)	(6,500)
Loss on extinguishment of debt	(52,106)	-	(104,868)	-
Derivative expense, net	(108,063)	-	(124,378)	-
Interest expense	(8,355)	-	(17,112)	-
Dismissal of litigation	-	-	-	16,250
Total other income/(expenses)	(368,524)	(2,250)	(446,358)	9,750
Net loss	$ (596,450)	$ (270,732)	$ (1,124,375)	$ (998,896)
Weighted average number of common shares outstanding - basic and diluted	106,711,903	79,312,901	97,705,298	57,396,718
Net loss per common share - basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.02)

See accompanying notes to consolidated financial statements.

GTX CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months ended September 30, 2013	2012
Cash flows from operating activities		
Net loss	$ (1,124,375)	$ (998,896)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	58,097	78,785
Stock-based compensation	84,303	277,816
Loss on extinguishment of debt and accrued expenses	104,868	-
Derivative expense, net	124,378	-
Impairment of software development costs	-	103,000
Dismissal of litigation	-	(16,250)
Finance costs	200,000	4,500
Changes in operating assets and liabilities		
Accounts receivable	3,351	106,683
Inventory	(689)	142,995
Other current and non-current assets	105,000	(7,927)
Accounts payable and accrued expenses	100,706	(26,158)
Accrued expenses - related parties	143,374	236,150
Deferred revenues	(7,665)	(140,737)
Net cash used in operating activities	(208,652)	(240,039)
Cash flows from investing activities		
Purchase of property and equipment	-	(14,549)
Net cash used in investing activities	-	(14,549)
Cash flows from financing activities		
Proceeds from issuance of debt	270,000	25,625
Payments of debt	(34,500)	-
Proceeds from issuance of common stock	-	152,010
Net cash provided by financing activities	235,500	177,635
Net change in cash and cash equivalents	26,848	(76,953)
Cash and cash equivalents, beginning of period	30,649	91,639
Cash and cash equivalents, end of period	$ 57,497	$ 14,686
Supplemental disclosure of cash flow information:		
Income taxes paid	$ -	$ -

Interest paid	$	-	$	-
Supplementary disclosure of noncash financing activities:				
Issuance of stock payable for other current asset	$	36,000	$	-
Issuance of common stock for conversion of debt	$	131,558	$	-
Issuance of common stock for accrued expenses - related parties	$	171,450	$	16,000
Issuance of common stock for prepaid advisory agreement	$	145,000	$	-
Issuance of convertible debt for development of insoles	$	50,000	$	-

See accompanying notes to consolidated financial statements.

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GTX CORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

GTX Corp and its subsidiaries (the “Company,” "we", "us", “our” or “GTX”) are engaged in businesses that design, develop and sell various interrelated and complementary products and services in the Wearable Technology and Personal Location Services marketplace. GTX owns 100% of the issued and outstanding capital stock of Global Trek Xploration (“GTX California”), LOCiMOBILE, Inc., and Code Amber News Service, Inc. (“CANS”).

GTX California is a solution provider offering an enterprise GPS and cellular location platform that provides real-time tracking of the whereabouts of people, pets, vehicles and high valued assets through a miniaturized transceiver module, wireless connectivity gateway, middleware and viewing portal. Our core products and services are supported by an IP portfolio of patents, patents pending, registered trademarks, copyrights, URLs and a library of software source code. LOCiMOBILE, Inc., has been at the forefront of Smartphone application (App) development since 2008. With a suite of mobile applications that turn the iPhone, iPad, Android, BlackBerry and other GPS enabled handsets into a tracking device which can then be tracked from handset to handset or through our Location Data Center tracking portal and which allows the user to send a map to the recipient’s phone showing the user’s location. LOCiMOBILE has launched numerous Apps across multi mobile device operating systems and continues to launch consumer and enterprise apps. CANS is a U.S. and Canadian syndicator of all state Amber Alerts providing website tickers and news feeds to merchants, internet service providers, affiliate partners, corporate sponsors and local, state and federal agencies, as well as, marketing and selling the patent pending electronic personal health record Code Amber Alertag.

Basis of Presentation

The accompanying unaudited consolidated financial statements of GTX have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and applicable regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of financial position and results of operations have been included. Our operating results for the nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The accompanying unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2012, which are included in our Annual Report on Form 10-K.

The accompanying consolidated financial statements reflect the accounts of GTX Corp and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

Going Concern

The consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred net losses of $1,124,375 and $998,896 for the nine months ended September 30, 2013 and 2012, respectively, has incurred losses since inception resulting in an accumulated deficit of $15,055,329 as of September 30, 2013, and has negative working capital of approximately $615,000 as of September 30, 2013. A significant part of our negative working capital position at September 30, 2013 consisted of $367,958 of amounts due to officers and management of the Company for accrued wages. The Company anticipates further losses in the development of its business.

The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company’s ability to raise additional capital through the future issuances of debt or equity is unknown. Obtainment of additional financing or its attainment of profitable operations is necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

The preparation of the accompanying unaudited consolidated financial statements requires the use of estimates that affect the reported amounts of assets, liabilities, revenues, expenses and contingencies. These estimates include, but are not limited to, estimates related to revenue recognition, allowance for doubtful accounts, inventory valuation, tangible and intangible long-term asset valuation, warranty and other obligations and commitments. Estimates are updated on an ongoing basis and are evaluated based on historical experience and current circumstances. Changes in facts and circumstances in the future may give rise to changes in these estimates which may cause actual results to differ from current estimates.

Reclassifications

For comparability, certain prior period amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2013. These reclassifications have no impact on net loss.

3. RELATED PARTY TRANSACTIONS

In order to preserve cash for other working capital needs, various officers and members of management have agreed to accrue portions of their salaries since fiscal 2011. As of September 30, 2013 and December 31, 2012, the Company owed $367,958 and $392,834, respectively for such accrued wages.

Related Party Loans

On April 15, 2013, the Company's Chief Executive Officer loaned the Company $30,000 to fund its working capital needs of which $15,000 has been repaid as of September 30, 2013. The loan was not evidenced by a formal written agreement.

On February 10, 2013, a Board Member loaned the Company $10,000 to funds its working capital needs. The loan was not evidenced by a formal written agreement. On March 28, 2013 the Company issued the Board Member 100,000 shares of common stock valued at the estimated grant date fair value of $3,200 as payment for interest on the loan. As of September 30, 2013, the loan has been repaid in full.

4. DEBT

The following table summarizes the components of our short-term borrowings:

	September 30, 2013	December 31, 2012
BSM Note dated 6/26/13	$ 7,437	$ —
JMJ Note dated 11/14/12	—	3,541
Short-term convertible notes	7,437	3,541
Aetrex note dated 9/19/12	—	9,500
Line Agreement dated 6/27/12	—	13,500
Short-term borrowings	—	23,000
Related party short-term borrowings	15,000	—
Short-term borrowings	$ 22,437	$ 26,541
Short-term derivative liabilities	$ 31,655	$ 30,380

Short-term convertible notes

On June 26, 2013, the Company entered into a Convertible Promissory Note with BSM Lending, LLC, for the principal sum of $30,000 plus interest of 15% per annum (the "BSM Note"). The BSM Note was not funded until July 1, 2013. The Company may repay the BSM Note and accrued interest at any time prior to maturity. The BSM Note is convertible into shares of common stock of the Company at a price equal to 65% of the 5 day average closing price per share of the Company's common stock. The BSM Note matures on June 25, 2014.

On November 14, 2012, the Company entered into a convertible promissory note with JMJ Financial ("JMJ") in the principal amount of $200,000 with a 10% original issue discount (the "JMJ Note"). Upon closing of the JMJ Note, the lender made an initial $25,000 advance of consideration to the Company and on February 28, April 24, and June 27, 2013, the lender made additional advances of $25,000 each to the Company. In accordance with the terms of the Convertible Note, the Company was assessed a one-time interest charge of 10% on each of the advances. The Convertible Note was convertible into shares of common stock of the Company at a price equal to the lesser of $0.025 or 70% of the lowest trade price in the 25 trading days previous to the conversion.

Through September 18, 2013, JMJ had elected to convert portions of the outstanding balance of the JMJ Note into 8,000,100 shares of our common stock valued at $82,370. In accordance with the JMJ Note, the conversion price was calculated at the lesser of $0.025 or 70% of the lowest trade price in the 25 trading days previous to the conversion. The resulting conversion price averaged $0.0060 per share resulting in $44,772 of the outstanding principle balance being converted into stock. A loss on extinguishment of debt in the amount of $34,820 was recorded on the conversion.

Effective September 19, 2013, JMJ entered into an assignment agreement (the "Assignment Agreement") with the 112359 Factor Fund, LLC (the "Fund") whereby JMJ sold 100% of its right, title and interest in the JMJ Note to the Fund. The JMJ Note had an outstanding balance of $74,394 at the time of the Assignment Agreement. A loss on extinguishment of debt in the amount of $34,360 for the three and nine months ended September 30, 2013 is included in the accompanying consolidated statement of operations as a result of the assignment. See further discussion regarding the Fund agreements below in ***Long-term debt***.

On September 19, 2012, Aetrex loaned the Company $10,000 .The loan is non-interest bearing and was due on November 30, 2012. As of September 30, 2013, the Company had repaid the Aetrex loan in full.

On June 27, 2012, the Company entered into an agreement with an unrelated third party (the "Holder") for a $55,000 line of credit (the "Line Agreement"). The Company was unable to repay the amount owed under the Line Agreement by the November 27, 2012 maturity date and owed $13,500 as of December 31, 2012. On January 14, 2013, the Holder of the Line Agreement entered into an assignment agreement with an unrelated third party (the "Assignee") whereby the Assignee assumed all of the Holder's right, title, and interest in and to the Line Agreement in the aggregate amount of $13,500 (the "Note"). As consideration for the assignment of the Note, on January 15, 2013, we issued the Assignee 2,459,355 shares of common stock and the Assignee paid the Holder $13,500. The market value of the 2,459,355 shares of common stock on the date of the assignment was approximately $49,000 per share resulting in the Company recording a loss on extinguishment of debt of approximately $35,700.

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Long-term debt

The following table summarizes the components of our long-term debt:

	September 30, 2013
Atlantic convertible note funded July 24, 2013	$34,926
Atlantic convertible note funded August 28, 2013	26,577
FF A & R 1st Debenture dated September 19, 2013	8,391
FF 2nd Debenture dated September 19, 2013	200,000
FF 3rd Debenture dated September 19, 2013	7,841
Long-term convertible notes	$277,735
Long-term derivative liabilities	$319,393

Atlantic Agreement and SPA

On July 12, 2013, the Company entered into an Exclusive Manufacturing Agreement (the "Agreement") with Atlantic Footcare, Inc., a Rhode Island corporation ("Atlantic") whereby Atlantic would be the Company's exclusive manufacturer of its new shoe insole to be used with our embedded GPS devices. In conjunction with the Agreement, on July 24, 2013 (the "Closing"), we also entered into a Security Purchase Agreement (the "SPA") with Atlantic. Pursuant to the SPA, Atlantic has committed to purchase (A) a convertible promissory note (the "Atlantic Note") in the original principal amount of $200,000, accruing 6% interest per annum, and maturing on November 13, 2014, and (B) a warrant to purchase shares of the Company's common stock, par value $0.001 per share (the "Warrant").

In accordance with the SPA, Atlantic agreed to lend to the Company up to $200,000, as follows:

(i) $50,000 (comprised of $25,000 in cash and $25,000 in insole development and tooling costs associated with manufacturing insoles containing the Company's GPS devices, the value of which shall be determined by Atlantic (the "Services")); and

(ii) 3 installments of $50,000 (each comprised of $25,000 in cash and $25,000 in Services) of which one installment has been made as of September 30, 2013.

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Atlantic may at any time elect to convert all of the entire outstanding principal amount of the Atlantic Note plus the accrued interest into 12% of the Company's issued and outstanding common stock immediately following the issuance thereof, multiplied by a fraction, the numerator of which is the principal amount of the Atlantic Note then outstanding and the denominator of which is $200,000.

If Atlantic is unable to dispose of the shares of common stock into which the Atlantic Note may be converted and the Warrant may be exercised (the "Registrable Shares") under Rule 144 as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act") Atlantic may request that the Company file a Form S-1 registration statement or Form S-3 registration statement (if applicable) with respect to one hundred percent (100%) of the Registrable Shares then outstanding, then the Company shall, as soon as practicable, and in any event within sixty (60) days after the date such request is given by Atlantic, file a registration statement under the Securities Act covering all Registrable Shares that Atlantic requested to be registered.

112359 Factor Fund

Effective September 19, 2013, the Company entered into a Securities Purchase Agreement with 112359 Factor Fund, LLC (the "Fund") pursuant to which the Company issued and sold to the Fund (i) an amended and restated convertible debenture (the "A & R 1st Debenture") in the principal amount of $123,394, (ii) a secured convertible debenture in the principal amount of $200,000 (the "2nd Debenture"), and (iii) a secured convertible debenture payable in eight (8) tranches totaling an aggregate principal balance of $901,000 (the "3rd Debenture" and together with the A & R 1st Debenture and 2nd Debenture, the "Debentures").

As discussed above in ***Short-term borrowings****,* effective September 19, 2013, JMJ entered into an assignment agreement with the Fund, whereby JMJ sold 100% of its right, title and interest in the JMJ Note to the Fund. In order to amend and restate the terms of the JMJ Note that was transferred to the Fund, the Company agreed to exchange the JMJ Note for a new debenture (i.e., the A & R 1st Debenture). The principal changes effected in the A & R 1st Debenture include: an increase in the amount outstanding from $74,394 to $123,394; the reduction of the interest rate to the lesser of the applicable Federal Rate or 6% per annum; the extension of the maturity dates to the third anniversary of the original payment dates; and the grant to the Fund of the right to convert any portion of the principal amount of A & R 1st Debenture into shares of common stock of the Company at a price equal to 100% of the average of the 5 lowest closing market prices for the Company's common stock for the 30 trading days preceding conversion. The Fund may not, however, convert the A & R 1st Debenture if such conversion would result in the Fund owning more than 4.99% of the Company's outstanding shares of common stock, subject to the Fund's right to waive this limit upon 65 days prior notice. If the A & R 1st Debenture is repaid and/or converted in full prior to its maturity date, all accrued interest will be forgiven.

The 2nd Debenture, in the amount of $200,000, was issued to the Fund in consideration for the Fund's various agreements issued under the Security Purchase Agreement. The 2nd Debenture matures December 31, 2017 and accrues interest on the unconverted outstanding principal balance at a rate per annum of the lesser of the applicable Federal Rate or six percent (6%). Following the Payment Compliance Date, as defined below, at the option of the Fund, the outstanding principal amount due under the 2nd Debenture may be converted into shares of the Company's common stock at a price equal to lesser of (a) the outstanding balance due under the Debenture divided by $0.01 per shares (the "Conversion Price,") or (b) 9.99% of the then-current issued and outstanding capital stock of the Company as of the first (1st) anniversary of the Payment Compliance Date. The "Payment Compliance Date" shall mean the later to occur of (a) the date on which the Fund has paid the Company the full $425,000 purchase price of the 3rd Debenture, or (b) the date on which all amounts due to the Fund, except for amounts due under the 2nd Debenture, have been fully paid. If the 2nd Debenture is repaid and/or converted in full prior to its maturity date, all accrued interest will be forgiven.

The face amount of the 3rd Debenture is $901,000. The Fund has agreed to purchase the 3rd Debenture in eight (8) installments (each such installment that is paid is referred to as a "Tranche"). The 3rd Debenture matures on the third (3rd) anniversary date of each Tranche payment. The payment and maturity dates of each Tranche are as follows:

Tranche Number	Tranche Payment Date	Tranche	Obligation	Maturity Date
1	September 19, 2013	$75,000	$159,000	September 18, 2016
2	October 14, 2013	$50,000	$106,000	October 13, 2016

3	November 15, 2013	$50,000	$106,000	November 14, 2016
4	December 13, 2014	$50,000	$106,000	December 12, 2017
5	January 17, 2014	$50,000	$106,000	January 16, 2017
6	February 14, 2014	$50,000	$106,000	February 13, 2017
7	March 14, 2014	$50,000	$106,000	March 13, 2017
8	April 18, 2014	$50,000	$106,000	April 17, 2017
Total Principal		**$425,000**	**$901,000**	

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Interest on the 3rd Debenture accrues on the unconverted outstanding principal balance hereof at a rate per annum of the lesser of the applicable Federal Rate or six percent (6%) and on a pro rata basis to the extent that each Tranche has been paid. The outstanding amounts due under the 3rd Debenture are convertible at the option of the Fund into shares of the Company's common stock at 100% of the average of the five (5) lowest closing market prices for the Common Stock for the thirty (30) trading days preceding each conversion; provided, however, that the Fund cannot own more than 4.99% of the Company's outstanding shares of common stock at any time, which limit may be waived by the Fund upon 65 days notice. If the 3rd Debenture is repaid and/or converted in full prior to its maturity date, all accrued interest will be forgiven.

The Debentures are secured by a blanket lien on substantially all of the Company's assets pursuant to the terms of a security agreement (the "Security Agreement") executed by the Company and its subsidiaries in favor of the Fund. If an event of default occurs and continues for more that 30 days following written notice of default from the Fund, under the Security Agreement, the fund may, in addition to any other remedies available to it, foreclose upon the assets securing such Debentures.

In addition, to further secure the Company's obligations under the Debentures, the Company's Chief Executive Officer, Mr. Patrick Bertagna, has pledged 13,180,378 shares of his common stock of the Company (the "Pledged Securities") pursuant to a stock pledge agreement (the "Pledge Agreement") executed by Mr. Bertagna in favor of the Fund. Upon the breach of any provision in the Pledge Agreement or upon the occurrence of any default event under the Debentures, the Fund may exercise any rights and remedies available, including, but not limited to, sale, assignment or other disposal of any or all of the Pledged Securities in exchange for cash or credit. The Fund's rights under the Pledge Agreement are limited to the extent that the Fund has agreed not to own more than 4.99% of the Company's outstanding shares of common stock at any time, which limitation the Fund can, however, waive upon 65 days notice.

Derivative liabilities

The conversion features embedded in the convertible notes were evaluated to determine if such conversion feature should be bifurcated from its host instrument and accounted for as a freestanding derivative. Excluding the 2nd Debenture, in all of the long-term and short-term convertible notes outstanding at September 30, 2013 and December 31, 2012, the conversion feature was accounted for as a derivative liability. The derivatives associated with the long-term and short-term convertible notes were recognized as a discount to the debt instrument and the discount is amortized over the expected life of the notes with any excess of the derivative value over the note payable value recognized as additional interest expense at the issuance date. Included in Derivative Expense, net in the accompanying Consolidated Statements of Operations is expense related to the amortization of debt discount totalling $122,597 and $204,777 during the three and nine months ended September 30, 2013, respectively. No such expense was recognized during the three and nine months ended September 30, 2012.

The derivative liability was calculated using the Black Scholes method over the expected terms of the convertible debentures, with a risk free rate of 1% and volatility of 314% as of September 30, 2013 and a risk free rate of 1% and volatility of 546% as of December 31, 2012. Included in Derivative Expense, net in the accompanying Consolidated Statements of Operations is income arising from the change in fair value of the derivatives of $14,534 and $80,399 during the three and nine months ended September 30, 2013, respectively. No such income was recognized during the three and nine months ended September 30, 2012.

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5. EQUITY

Common Stock

The Company issued the following shares of common stock during the nine months ended September 30, 2013:

	Value of Shares	Number of Shares
Shares issued for services rendered	$68,300	3,800,000
Shares issued for accrued salaries and expenses	186,450	14,350,000
Shares issued with repurchase rights	9,315	1,000,000
Shares issued for conversion of debt	82,371	8,000,100
Shares issued for financing	49,187	2,459,355
Shares issued for advisory agreements	145,000	5,500,000
Total shares issued	$540,623	35,109,455

Shares issued for services rendered were to various members of management, employees and consultants and are expensed as Stock-Based Compensation in the accompanying consolidated statement of operations. Shares issued for accrued expenses were granted to members of management, Board Members, consultants and employees as payment for portions of amounts owed to them for services rendered in previous periods. Shares issued with repurchase rights relate to shares granted to members of management and the Board of Directors whereby the Company retained the rights to acquire the shares from the stock recipients and such repurchase rights lapsed rateably over twelve months at a rate of $1/12^{th}$ per month beginning on January 1, 2013. Upon vesting, the shares are revalued based on the average stock price during the respective month and the related stock based compensation expense is recognized. Shares issued for conversion of debt relate to conversions of the JMJ note discussed in Note 4. Shares issued for financing relate to shares issued to the Assignee as payment of the Line Agreement (see Note 4). Shares issued for advisory agreements relate to shares issued to BSI as payment for two separate advisory agreements (see discussion below).

Brewer Agreements

On February 15, 2013, the Company entered into a one-year advisory service agreement with Brewer Sports International, LLC ("BSI") (the "February Advisory Agreement"). During the term of the February Advisory Agreement, BSI will provide consulting services aimed at increasing and enhancing the Company's brand, distribution and sales in the professional sports industry. As compensation for such services, on May 14, 2013 the Company issued BSI 3,000,000 shares of common stock valued at the grant date fair value of $120,000.

On June 26, 2013, the Company entered into a second one-year advisory service agreement with BSI (the "June Advisory Agreement"). During the term of the June Advisory Agreement, BSI will include the Company in its upcoming Traumatic Brain Injury awareness conference, participate in the direct response marketing campaign and expand its social media awareness programs relative to this issue and the products and services offered by the

Company. As compensation for such services, on June 26, 2013 the Company issued BSI 2,500,000 shares of common stock valued at the grant date fair value of $25,000.

Common Stock Warrants

Since inception, the Company has issued warrants to purchase shares of the Company's common stock to shareholders, consultants and employees as compensation for services rendered and/or through private placements.

A summary of the Company's warrant related information as of September 30, 2013 is as follows:

Stock Warrants as of September 30, 2013

Exercise Price	Warrants Outstanding	Remaining Life (Years)	Warrants Exercisable
$0.08	5,720,000	0.38	5,720,000
$0.02	2,000,000	1.94	2,000,000
	7,720,000	0.79	7,720,000

Additionally, in connection with the SPA entered into with Atlantic on July 12, 2013 (See Note 4), the Company issued a Warrant to Atlantic, whereby Atlantic is entitled to purchase from the Company a total number of shares of common stock, such that, when added to the total number of shares of common stock acquired by Atlantic upon conversion of the Atlantic Note, equals 12% of the common stock outstanding as of the date of such conversion, as such total outstanding amount may, be increased by issuances of common stock occurring on or prior to November 13, 2014 (or by issuances of common stock occurring after November 13, 2014 but pursuant to convertible instruments issued or commitments made by the Company prior to November 13, 2014), other than issuances of excluded securities as such term is defined in the Atlantic Note, at an exercise price per share equal to $0.001 per share, at any time and from time to time on or after the Closing Date and through and including November 13, 2020. As of the date of this Quarterly Report, Atlantic has not converted any portion of the Atlantic Note.

Common Stock Options

During the nine months ended September 30, 2013 and 2012, the Company recorded compensation expense related to options granted under the 2008 Equity Compensation Plan (the "2008 Plan") of $0 and $5,310, respectively