GTX CORP
Form 10-Q
November 05, 2008

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, 2008

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, # 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 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. 38,658,540 common shares issued and outstanding as of November 4, 2008.

GTX CORP
For the quarter ended September 30, 2008
FORM 10-Q

PART I

ITEM 1. Interim Consolidated Financial Statements (unaudited):

GTX CORP
(Formerly Deeas Resources, Inc.)
CONSOLIDATED BALANCE SHEETS
September 30, 2008 and December 31, 2007

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,645,658	$ 735,937
Accounts receivable, net	127,486	-
Inventory, net	16,457	15,312
Other assets	60,637	-
Total current assets	2,850,238	751,249
Property and equipment, net	70,157	11,810
Deposits	5,245	-
Total assets	$ 2,925,640	$ 763,059
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 275,481	$ 351,849
Shareholder note payable	-	78,385
Convertible note payable	-	1,000,000
Total current liabilities	275,481	1,430,234
Total liabilities	275,481	1,430,234
Commitments		
Stockholders' equity (deficit):		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $0.001 par value; 2,071,000,000 shares authorized; 38,640,079 and 15,605,879 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	38,640	15,606
Additional paid-in capital	9,501,355	3,357,863
Accumulated deficit	(6,889,836)	(4,040,644)
Total stockholders' equity (deficit)	2,650,159	(667,175)
Total liabilities and stockholders' equity (deficit)	$ 2,925,640	$ 763,059

See accompanying notes to financial statements

GTX CORP
(Formerly Deeas Resources Inc.)
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues	$ 235,102	$ -	$ 374,165	$ 26,000
Cost of goods sold	193,864	-	302,461	-
Gross margin	41,238	-	71,704	26,000
Operating expenses				
Salaries and professional fees	795,242	169,708	2,272,581	574,748
Research and development	112,632	64,073	307,288	198,808
General and administrative	133,355	29,812	310,175	105,864
Total operating expenses	1,041,229	263,593	2,890,044	879,420
Loss from operations	(999,991)	(263,593)	(2,818,340)	(853,420)
Other income (expense)				
Interest income	14,000	-	31,659	1,686
Interest expense	-	(1,960)	(62,511)	(5,918)
Net loss	$ (985,991)	$ (265,553)	$ (2,849,192)	$ (857,652)
Weighted average number of common shares outstanding - basic and diluted	38,540,772	15,114,004	32,138,473	14,977,052
Net loss per share - basic and diluted	$ (0.03)	$ (0.02)	$ (0.09)	$ (0.06)

See accompanying notes to financial statements

GTX CORP
(Formerly Deeas Resources Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	For the nine months ended September 30, 2008	2007
Cash flows from operating activities		
Net loss	$ (2,849,192)	$ (857,652)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	11,193	1,964
Stock based compensation	953,149	103,534
Changes in operating assets and liabilities		
Accounts receivable	(127,486)	266,498
Inventory	(1,145)	-
Other current and non-current assets	(43,934)	-
Accounts payable and accrued expenses	29,625	-
Net cash used in operating activities	(2,027,790)	(485,656)
Cash flows from investing activities		
Purchase of property and equipment	(69,539)	-
Net cash used in investing activities	(69,539)	-
Cash flows from financing activities		
Proceeds from issuance of common stock	3,732,000	10,000
Proceeds from issuance of common stock from exercise of stock warrants	398,800	272,000
Commissions paid in relation to May 2008 Financing	(123,750)	-
Net cash provided by financing activities	4,007,050	282,000
Net increase (decrease) in cash and cash equivalents	1,909,721	(203,656)
Cash and cash equivalents, beginning of period	735,937	245,461
Cash and cash equivalents, end of period	$ 2,645,658	$ 41,805
Supplemental disclosure of cash flow information:		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -
Supplementary disclosure of noncash financing activities:		
Issuance of common stock for repayment of note payable	$ 1,000,000	$ -
Issuance of common stock for repayment of shareholder note payable	$ 78,385	$ -
Issuance of common stock for repayment of accounts payable and accrued expenses	$ 104,626	$ -

Issuance of common stock for other asset	$	37,625	$	-

See accompanying notes to financial statements

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GTX CORP
(Formerly Deeas Resources Inc.)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND NATURE OF OPERATIONS

GTX Corp, a Nevada corporation (the "Company" or "GTX") formerly known as Deeas Resources Inc., owns 100% of the issued and outstanding capital stock of Global Trek Xploration. On September 22, 2008, the Company dissolved 0758372 B.C. Ltd. Concurrent with the March 14, 2008 Exchange Agreement described below, the Company changed its name from Deeas Resources Inc. to GTX Corp. All of the Company's operations are currently conducted through Global Trek Xploration. Unless the context indicates otherwise, references herein to "we," "our," or the "Company" during periods prior to March 14, 2008 refer solely to Global Trek Xploration, while references to "we," "our," or the "Company" after March 14, 2008 refer to both GTX Corp and its subsidiary; Global Trek Xploration. All references to "Deeas" refer to Deeas Resources Inc. on a stand-alone basis prior to March 14, 2008.

We developed and patented an integrated miniaturized 2-Way GPS™ tracking and location aware technology for consumer products and applications. As the underlying technology provider, the Company works with branded license partners to deliver these innovative solutions to the consumer in a wide variety of wearable location devices. Our *gpVector* Personal Location Services ("GPS/PLS") suite delivers remote real-time oversight of loved ones and high-value assets. Our licensing model and a user friendly format allows us to transparently embed the technology into a wide variety of branded consumer products. In addition to geo spatial location-reporting, which provides peace of mind to caretakers, the Company's scalable gpVector™ technology platform is also designed to deliver new and innovative life style based applications. Some of those are interactive real-time gaming and performance, health / exercise monitoring and geo specific social networking. The miniaturization of the electronics offers a whole new category of portable hosts to deliver a wide range of new people-oriented wearable 2 way GPS/PLS solutions.

GTX Corp's vision at the inception of the Company was GPS-enabled footwear for young children and the elderly with dementia. The Company has expanded that to now include embedded 2-Way GPS™ technology providing an extensive gpVector™ platform. Additional deployments in progress include exercise monitoring, law enforcement, maritime applications, military and first responders, cellular handsets for social networking, automotive/commercial/payload tracking and many others. The Company holds one patent, has two that have been noticed for allowance by the USPTO and has fifteen additional patents pending**.** With six years of research and development, key strategic technology partnerships, and a diligent ongoing policy of intellectual property protection, GTX Corp continues its efforts to advance the wearable GPS industry and the 2-Way GPS/PLS space. GTX Corp's approach is to be the value-added supporting brand to master consumer brands. The driving goal of the Company is to utilize advanced assisted GPS, cellular and Internet technologies, then integrate that technology with branded consumer products and collectively deliver solutions which will benefit people and society.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, the unaudited interim consolidated financial statements do not contain all of the information and footnotes required by generally accepted accounting principles for complete audited annual financial statements.

The unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period's presentation. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position as of September 30, 2008 and the results of operations for the three and nine months ended September 30, 2008 and 2007 and consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007. These interim consolidated financial statements should be read in conjunction with the Company's Prospectus filed with the Securities Exchange Commission on August 14, 2008 which includes the audited financial statements and notes thereto of Global Trek Xploration as of December 31, 2007. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of results that may be expected for the year ending December 31, 2008.

Reverse Merger

On March 4, 2008, Deeas entered into the Share Exchange Agreement, (the "Exchange Agreement"), with Global Trek Xploration, the shareholders of Global Trek Xploration (the "Selling Shareholders"), and Jupili Investment S.A., a company incorporated under the laws of the Republic of Panama ("Jupili").

Under the Exchange Agreement, the Company agreed to acquire all of the outstanding capital stock of Global Trek Xploration, following a 20.71 forward common stock split of Deeas. The closing of the transactions contemplated by the Exchange Agreement and the closing of the March 2008 Financing described below occurred on March 14, 2008 (the "Closing" or the "Closing Date"). Pursuant to the Exchange Agreement, at the Closing, Deeas issued 18,000,001 post forward split common shares of Deeas for all of the issued and outstanding shares of Global Trek Xploration on the basis of 0.8525343 shares of Deeas for every one share of Global Trek Xploration. As a result, Global Trek Xploration became a wholly-owned subsidiary of Deeas. Concurrent with the Reverse Merger, Deeas changed its name to GTX Corp.

As a result of this Exchange Agreement, the Selling Shareholders acquired approximately 50% of the issued and outstanding common shares of the Company. For accounting purposes, the merger was treated as an acquisition of Deeas and a recapitalization of Global Trek Xploration. Global Trek Xploration is the accounting acquirer and the results of its operations carryover. Accordingly, the operations of Deeas are not carried over and have been adjusted to $0.

Concurrent with the closing of this transaction, the Company cancelled 31,065,000 post forward split common shares (1,500,000 pre split common shares) which had been held by the sole director and officer of the Company prior to the reverse merger, completed a $2,000,000 private placement of units of the Company at $0.75 per unit (the "March 2008 Financing") and converted a $1,000,000 Global Trek Xploration bridge loan and interest into units of the Company at $0.75 per unit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue is recognized when earned. Revenue related to licensing agreements is recognized over the term of the agreement. Revenue for services and products are recognized as the services are rendered and the products are shipped.

Revenues recognized during the three and nine months ended September 30, 2008 were received from one customer primarily for sale of approximately 900 gpVector™ Powered Athlete Tracking Systems. Revenues recognized during the three and nine months ended September 30, 2007 were received from one customer in connection with a licensing agreement which was terminated.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include operating accounts, money market funds, and securities with original maturities of three months or less when purchased. The carrying amount of cash and cash equivalents approximates fair value, given the short maturity of those instruments. The cash and cash equivalents at September 30, 2008 are principally held by one institution which insures the Company's individual accounts with the Federal Deposit Insurance Corporation ("FDIC") up to $100,000 and the Securities Investor Protection Corporation ("SIPC") up to $500,000. At September 30, 2008, the Company had uninsured cash deposits in excess of the FDIC or SIPC insurance limit of approximately $2.0 million. As of September 30, 2008, no losses related to these uninsured amounts have been incurred. As of today's date all of the Company's cash deposits are fully insured.

Stock-based Compensation

Stock based compensation expense is recorded in accordance with SFAS 123R (Revised 2004), *Share-Based Payment*, for stock and stock options awarded in return for services rendered. The expense is measured at the grant-date fair value of the award and recognized as compensation expense on a straight-line basis over the service period, which is the vesting period. The Company estimates forfeitures that it expects will occur and records expense based upon the number of awards expected to vest.

Development Stage Company

During the three months ended March 31, 2008, the Company no longer met the qualifications as a development stage company as defined in Financial Accounting Standards Board Statement No. 7. Accordingly, reporting as a development stage company is no longer deemed necessary.

3. INVENTORY

The components of inventory at September 30, 2008 consist of the following:

Raw materials	$	16,050
Work in process		407
Inventory	$	16,457

4. PROPERTY AND EQUIPMENT

Property and equipment, net, at September 30, 2008, consists of the following:

Computer and office equipment	$	71,118
Software		13,750
Trademarks		2,200
Less: accumulated depreciation		(16,911)
Total property and equipment, net	$	70,157

Depreciation expense for the three and nine months ended September 30, 2008 was $5,834 and $11,193, respectively. Depreciation expense for the three and nine months ended September 30, 2007 was $655 and $1,964, respectively.

5. EQUITY

March 2008 Financing

On March 13, 2008, concurrent with the reverse merger described in Note 1, we completed the sale of 2,666,668 units at $0.75 per unit, each unit consisting of one share of common stock and one stock purchase warrant. Each warrant is exercisable into an additional common share at $1.25 per share.

Jupili provided a bridge financing to Global Trek Xploration of $1,000,000 pursuant to a convertible loan agreement. The $1,000,000 loan plus accrued interest of $30,750 was converted into 1,374,334 units of the Company on the same terms and conditions as the private placement noted above.

The Company paid Jupili a success fee of 2% of the aggregate amount of the March 2008 Financing and the Bridge Financing of $60,000. Jupili has guaranteed that no less than 1,000,000 warrants will be exercised in cash on or before January 14, 2009, otherwise the Company shall have the right to compel Jupili to purchase 1,000,000 common shares of the Company at $1.25 per share.

The issuance of the Units in connection with the March 2008 Financing and upon conversion of the Jupili bridge loan is intended to be exempt from registration under the Securities Act pursuant to Regulation S. As such, these issued securities may not be offered or sold in the United States unless they are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available.

We filed a Registration Statement on May 12, 2008 with the SEC to register the shares of common stock and the shares issuable upon exercise of the Warrants issued in the March 2008 Financing and to register the shared issued upon conversion of the Jupili bridge loan (the “Registration Statement”). This Registration Statement was subsequently amended and filed with the SEC on August 12, 2008. The Prospectus was filed on August 14, 2008 and a Prospectus Supplement was filed on August 15, 2008 to incorporate the financial information for the period ended June 30, 2008.

May 2008 Financing

In May 2008 we completed a sale to thirty-two (32) investors (“May 2008 Financing”) of 1,732,000 units (“May 2008 Units”) of the Company’s securities at a price of $1.00 per unit. Each of the May 2008 Units consists of one common share and one share purchase warrant (“May 2008 Warrant”). Each May 2008 Warrant is exercisable at an exercise price of $1.50 per share for a three-year term. The common stock and common shares underlying the May 2008 Warrants sold in this May 2008 Financing have piggy-back registration rights.

We agreed to pay up to 10% cash and 10% warrant coverage as commissions to registered broker-dealers or unregistered finders in connection with the May 2008 Financing. Mr. Matthew Williams, the brother of our Chief Financial Officer, Murray Williams, received $20,300 and 20,300 May 2008 Warrants from GTX Corp for his services as a finder. We paid an aggregate of $26,950 and issued 26,950 May 2008 Warrants as commissions to three (3) other unregistered finders. In addition we paid Meyers Associates LP, a registered broker-dealer, $76,500 in cash commission and 71,500 May 2008 Warrants for the May 2008 Financing that they arranged for us. Thus, in total we paid $123,750 and 118,750 May 2008 Warrants to registered broker-dealers or unregistered finders in connection with the May 2008 Financing. The commissions are deemed a cost of capital and have been recorded at fair value as a reduction in additional paid-in capital in the accompanying interim consolidated financial statements.

Common Stock

In conjunction with the Reverse Merger, all of the issued and outstanding shares of Global Trek Xploration at March 14, 2008 were exchanged to GTX Corp common shares on the basis of .8525343 common shares of GTX Corp for every one share of Global Trek Xploration.

As a result of the Reverse Merger and the associated March 2008 Financing, (i) 13,999,960 shares of Deeas Resources common shares were recapitalized into GTX Corp, (ii) the Jupili bridge loan of $1,000,000 plus accrued interest of $30,750 was converted into 1,374,334 shares of common stock (as part of an above-described "Unit") at $0.75 per unit and (iii) 2,666,668 shares of common stock (as part of an above-described "Unit") were issued at $0.75 per unit in the March 2008 Financing. In addition, as partial consideration for their work on the Exchange Agreement and the March 2008 Financing, our attorneys, Richardson & Patel, were granted 80,000 units valued at $0.75 per unit.

The Company sold 1,732,000 shares of stock to investors in connection with the May 2008 Financing. Additionally, as a bonus for exceeding $1,000,000 of proceeds in this financing, Patrick E. Bertagna, our Chief Executive Officer and Chairman, Murray Williams, our Chief Financial Officer, and Patrick Aroff, a member of our board of directors, were each issued 40,000 shares of our common stock, and Louis Rosenbaum, a member of our board of directors, was issued 10,000 shares of our common stock. The grant-date fair value of these shares was $130,000 and is recorded as a cost of capital in the accompanying interim consolidated financial statements.

During the first quarter of 2008, the Company issued 480,000 shares of common stock from the 2008 Equity Compensation Plan at a value of $0.75 per share to various members of management and consultants as compensation for services rendered, the grant-date fair value of which was estimated at $360,000. During the third quarter of 2008, the Company issued 151,616 shares of common stock from the 2008 Equity Compensation Plan at values ranging from $0.85 to $1.60 per share to various employees and consultants as compensation for services rendered, the grant-date fair value of which was estimated at $199,750.

During May 2008, the Company entered into a one year agreement with a third-party public relations firm. The terms of the agreement include the issuance of 17,500 shares of common stock to be paid to the public relations firm in 4 equal installments. The 17,500 shares of common stock have been issued and are held by the company in escrow to be delivered to the public relations firm in four equal quarterly installments during the 1-year term of the agreement. The fair value of these shares was estimated to be $37,625 based on the market price of the securities, as quoted on the OTCBB on the date of issuance. During the three and nine months ended September 30, 2008, $9,406 and $15,677, respectively has been expensed in the accompanying interim consolidated financial statements.

During July 2008, the Company's Board of Directors reserved for issuance a pool of 40,000 shares of "Unrestricted Stock" of the Company under the 2008 Equity Compensation Plan for grant and issuance to various consultants and/or employees in lieu of paying them cash for their services (the "Award Pool"). The Company's Board of Directors created a committee (the "Stock Award Committee") that has the authority to grant and issue awards from the Award Pool. During August 2008, the Company engaged a consultant to perform research and development work. The number of shares consultant shall receive for each particular month during shall be equal to Twelve Thousand Dollars ($12,000) divided by the closing price of the Company's common stock on the last day of each month the consultant provides the services. As of September 30, 2008, 14,116 shares of common stock at $0.85 per share had been issued to the consultant for the month of August 2008. On October 1, 2008, 18,461 shares of common stock valued at $0.65 per share were issued to the consultant as payment for September 2008 services.

During July 2008, the Company's Board of Directors reserved for issuance a pool of 35,000 shares of the Company's common stock ("Restricted Stock Award Pool") for grant and issuance to various consultants and/or employees in lieu of paying them cash for their services. These shares of common stock will be subject to restrictions upon transfer pursuant to Rule 144, as promulgated under the Securities Act of 1933, as amended. The Company's Board of Directors created a committee (the "Stock Award Committee") that has the authority to grant and issue awards from the Restricted Stock Award Pool. During August 2008, the Company issued 8,000 shares of common stock at $1.60 per share from the Restricted Stock Award Pool to various consultants as compensation for services rendered, the grant-date fair value of which was estimated at $12,800.

Common Stock Warrants

Since inception, the Company has issued numerous warrants to purchase shares of the Company's common stock to shareholders, consultants and employees as compensation for services rendered. Prior to the Reverse Merger, there were 4,721,877 warrants outstanding. All of the 4,721,877 warrants were exercised for aggregate total proceeds of $398,799. The Company issued a total of 2,394,121 shares of its $.001 par value common stock for the warrant exercises. The Company offered a cashless exercise option to all of the warrant holders that did not want to pay cash to exercise all of their warrants. Various warrant holders opted to accept the cashless exercise option for some or all of their warrants. In addition, approximately $186,000 of indebtedness and related accrued interest were settled through the exercise of these warrants.

Of the 2,666,668 warrants sold in connection with March 2008 Financing, 1,000,002 and 1,666,666 are exercisable until March 14, 2009 and September 14, 2009, respectively. The fair value of the 2,666,668 warrants was estimated to be $158,000 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield 0%, expected volatility 50%, risk-free interest rate 2%, and expected life of 12-18 months.

The fair value of the 1,374,334 warrants issued to Jupili in connection with the March 2008 Financing was estimated to be $97,000 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield 0%, expected volatility 50%, risk-free interest rate 2%, and expected life of 18 months.

On March 16, 2008, the Company issued 25,000 warrants to purchase a like number of common shares at $0.75 per share, to a consultant for services rendered. The warrants expire on March 31, 2010. The fair value of the 25,000 warrants was estimated to be $5,510 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield 0%, expected volatility 50%, risk-free interest rate 2%, and expected life of 24 months and is recorded as compensation expense in the accompanying interim consolidated financial statements.

The fair value of the 80,000 warrants issued to our attorneys in conjunction with the March 2008 Financing units was estimated to be $12,000 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield 0%, expected volatility 50%, risk-free interest rate 3.0%, and expected life of 3 years.

The fair value of the 1,732,000 warrants issued in connection with the sale of the May 2008 Financing units was estimated to be $324,000 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield 0%, expected volatility 43%, risk-free interest rate 2.9%, and expected life of 3 years.

The fair value of the 118,750 warrants granted as commissions in connection with the May 2008 Financing was estimated to be $22,350 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield 0%, expected volatility 43%, risk-free interest rate 2.9%, and expected life of 3 years.

A summary of the Company's warrant activity and related information for the nine months ended September 30, 2008 is provided below:

		Exercise Price	Number of Warrants
Outstanding and exercisable at December 31, 2007	$	0.42 – 0.59	4,721,877
Warrants exercised for cash		0.42 – 0.59	(871,479)
Cashless exercise of warrants		0.00	(3,493,635)
Warrants exercised as settlement of liabilities		0.42 – 0.59	(356,763)
Warrants granted		0.75 – 1.50	5,996,752
Outstanding and exercisable at September 30, 2008		0.75 - 1.50	5,996,752

Stock Warrants as of September 30, 2008

	Exercise Price	**Warrants Outstanding**	**Remaining Life (Years)**	**Warrants Exercisable**
$	1.50	1,850,750	2.67	1,850,750
$	1.25	80,000	2.67	80,000
$	1.25	1,000,002	0.50	1,000,002
$	1.25	3,041,000	1.00	3,041,000
$	0.75	25,000	1.50	25,000
		5,996,752		5,996,752

Common Stock Options

On March 14, 2008, we adopted the 2008 Equity Compensation Plan, the "2008 Plan," pursuant to which we are authorized to grant stock options intended to qualify as Incentive Stock Options, "ISO", under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified options, restricted and unrestricted stock awards and stock appreciation rights to purchase up to 7,000,000 shares of common stock to our employees, officers, directors and consultants, with the exception that ISOs may only be granted to employees of the Company and it's subsidiaries, as defined in the 2008 Plan. The 2008 Plan shall be administered by a committee consisting of two or more members of the Board of Directors or if a committee has not been elected, the Board of Directors of the Company shall serve as the committee.

As of September 30, 2008, stocks and options were granted to members of our management and consultants at a price equal to the fair market value of the common stock at the date of grant. The stock options vest one-third following the one year anniversary of the grant date with the remainder vesting monthly over the following two years or as otherwise determined by the Board of Directors and generally expire three years following the vesting date, if not exercised.

The Company recognizes option expense ratably over the vesting periods. For the three and nine months ended September 30, 2008, the Company recorded compensation expense related to options granted under the 2008 Plan of $150,631 and $284,163, respectively.

The fair value of option grants was estimated using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30, 2008
Expected dividend yield (1)	0.00%
Risk-free interest rate (2)	2-3.3%
Expected volatility (3)	40-50%
Expected life (in years) (4)	4-6

(1) The Company has no history or expectation of paying dividends on its common stock.
(2) The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the awards in effect at the time of grant.
(3) The Company estimates the volatility of its common stock at the date of grant based on the implied volatility of its common stock. The Company used a weighted average of trailing volatility and market based implied volatility for the computation.
(4) The expected life of stock options granted under the Plan is based on the length of time from date of grant to the expiration date which consists of between 4 to 6 years based on the vest date of each option grant. The stock options expire 3 years from the date of vest.

The Plan provides for the issuance of a maximum of 7,000,000 shares of which 1,781,923 were still available for issuance as of October 1, 2008.

Stock option activity under the Plan for the nine months ended September 30, 2008 is summarized as follows:

	Shares		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (in years)		Grant Date Fair Value
Outstanding at December 31, 2007	-	$	-	-		
Options granted	4,568,000	$	0.84	4.06	$	1,709,037
Options exercised	-	$	-	-		
Options cancelled/forfeited/ expired	-	$	-	-		
Outstanding at September 30, 2008	4,568,000	$	0.84	4.06	$	1,709,037
Vested and expected to vest at September 30, 2008 (1)	4,068,000	$	0.84	4.06	$	1,709,037