PRESSURE BIOSCIENCES INC
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015

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 0-21615

PRESSURE BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2652826**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14 Norfolk Avenue	
South Easton, Massachusetts	**02375**
(Address of principal executive offices)	(Zip Code)

(508) 230-1828

(Registrant's telephone number, including area code)

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.

[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

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

[ ] Yes [X] No

The number of shares outstanding of the Issuer's common stock as of August 13, 2015 was 21,165,654.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	June 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$38,175	$473,948
Accounts receivable	349,958	272,022
Inventories, net of $50,000 reserve at June 30, 2015 and December 31, 2014	783,891	850,552
Prepaid income taxes	7,381	7,381
Prepaid expenses and other current assets	151,481	104,204
Total current assets	1,330,886	1,708,107
Property and equipment, net	30,500	36,025
TOTAL ASSETS	$1,361,386	$1,744,132
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$979,479	$1,035,781
Accrued employee compensation	153,269	157,347
Accrued professional fees and other	803,789	719,432
Deferred revenue	73,364	27,117
Convertible debt, net of debt discount of $1,176,668 and $328,681, respectively	1,083,353	1,004,513
Other debt	740,839	80,480
Warrant derivative liability	124,643	159,875
Conversion option liability	1,731,650	590,341
Total current liabilities	5,690,386	3,774,886
LONG TERM LIABILITIES		
Deferred revenue	-	28,977
TOTAL LIABILITIES	5,690,386	3,803,863
COMMITMENTS AND CONTINGENCIES (Note 4)		
STOCKHOLDERS' DEFICIT		
Series D Convertible Preferred Stock, $.01 par value; 850 shares authorized; 300 shares issued and outstanding on June 30, 2015 and December 31, 2014 (Liquidation value of $300,000)	3	3

Series G Convertible Preferred Stock, $.01 par value; 240,000 shares authorized; 86,570 shares issued and outstanding on June 30, 2015 and December 31, 2014	866	866
Series H Convertible Preferred Stock, $.01 par value; 10,000 shares authorized; 10,000 shares issued and outstanding on June 30, 2015 and December 31, 2014	100	100
Series H2 Convertible Preferred Stock, $.01 par value; 21 shares authorized; 21 shares issued and outstanding on June 30, 2015 and December 31, 2014	-	-
Series J Convertible Preferred Stock, $.01 par value; 6,250 shares authorized; 3,546 shares issued and outstanding on June 30, 2015 and December 31, 2014	36	36
Series K Convertible Preferred Stock, $.01 par value; 15,000 shares authorized; 11,416 shares issued and outstanding on June 30, 2015 and December 31, 2014	114	114
Common stock, $.01 par value; 65,000,000 shares authorized; 19,939,131 and 18,673,390 shares issued and outstanding on June 30, 2015 and December 31, 2014, respectively	199,391	186,734
Warrants to acquire common stock	5,347,054	5,253,566
Additional paid-in capital	25,037,861	24,617,564
Accumulated deficit	(34,914,425)	(32,118,714)
Total stockholders' deficit	(4,329,000)	(2,059,731)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$1,361,386	$1,744,132

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

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PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
Revenue:				
Products, services, other	$333,575	$307,464	$692,939	$711,611
Grant revenue	79,529	-	160,299	-
Total revenue	413,104	307,464	853,238	711,611
Costs and expenses:				
Cost of products and services	175,193	134,453	365,976	312,059
Research and development	291,402	253,238	523,325	484,326
Selling and marketing	200,178	196,074	366,401	367,414
General and administrative	810,220	570,456	1,536,244	1,176,935
Total operating costs and expenses	1,476,993	1,154,221	2,791,946	2,340,734
Operating loss	(1,063,889)	(846,757)	(1,938,708)	(1,629,123)
Other (expense) income:				
Interest expense	(640,691)	(341,649)	(1,246,276)	(478,313)
Other expense	(168,111)	-	(513,352)	-
Gain on extinguishment of embedded derivative liabilities	186,609	-	848,073	-
Change in fair value of derivative liabilities	299,841	585,219	78,031	(255,406)
Total other (expense) income	(322,352)	243,570	(833,524)	(733,719)
Net loss	(1,386,241)	(603,187)	(2,772,232)	(2,362,842)
Accrued dividends on convertible preferred stock	(6,811)	(9,606)	(23,479)	(54,593)
Deemed dividends on convertible preferred stock	-	(107,996)	-	(1,388,062)
Net loss applicable to common shareholders	$(1,393,052)	$(720,789)	$(2,795,711)	$(3,805,497)
Net loss per share attributable to common stockholders - basic and diluted	$(0.07)	$(0.05)	$(0.14)	$(0.30)
Weighted average common stock shares outstanding used in the basic and diluted net loss per share calculation	19,682,632	13,567,472	19,247,895	12,848,751

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

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PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,772,232)	$(2,362,842)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,187	39,731
Accretion of interest and amortization of debt discount	1,047,864	393,845
Debt conversion option value in excess of debt	476,442	-
Stock-based compensation expense	110,506	40,384
Amortization of third party fees paid in common stock	167,936	159,482
Gain on extinguishment of embedded derivative liabilities	(848,073)	-
Change in fair value of derivative liabilities	(78,031)	255,406
Changes in operating assets and liabilities:		
Accounts receivable	(77,936)	(43,090)
Inventories	66,661	(116,543)
Prepaid expenses and other current assets	16,723	(40,909)
Accounts payable	(56,302)	59,309
Accrued employee compensation	(4,078)	(28,987)
Deferred revenue and other accrued expenses	87,548	(112,262)
Net cash used in operating activities	(1,850,785)	(1,756,476)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property plant and equipment	(6,662)	(7,139)
Net cash used in investing activities	(6,662)	(7,139)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from related party debt	6,300	-
Payment of related party debt	(12,300)	(25,182)
Net proceeds from convertible debt	1,609,437	420,434
Payments on convertible debt	(667,450)	(303,100)
Net proceeds from non-convertible debt	992,128	196,250
Payments on non-convertible debt	(333,641)	(172,360)
Payment of prepayment penalty	(172,800)	-
Net proceeds from the issuance of common stock	-	149,165
Net proceeds from the issuance of convertible preferred stock	-	1,476,360
Net cash provided by financing activities	1,421,674	1,741,567
NET DECREASE IN CASH	(435,773)	(22,048)

CASH AT BEGINNING OF YEAR	473,948	31,417
CASH AT END OF PERIOD	$38,175	$9,369
SUPPLEMENTAL INFORMATION		
Interest paid in cash	$203,311	$33,445
Income taxes paid in cash	-	-
NON CASH TRANSACTIONS:		
Convertible debt exchanged for convertible preferred stock	-	270,000
Accrued dividends on preferred stock	23,479	54,593
Issuance of convertible preferred stock for interest	-	30,000
Issuance of convertible preferred stock for board of director and other fees	-	92,750
Deemed dividend on convertible preferred stock	-	1,388,062
Convertible debt exchanged for common stock	248,000	87,500
Debt discount from derivative liability	1,555,739	-
Extension fees added to principal	54,000	-
Prepayment penalty and accrued interest enrolled into debt principal	48,950	-
Common stock issued for preferred dividends	-	58,268

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

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PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015

(UNAUDITED)

1) Business Overview, Liquidity and Management Plans

Pressure BioSciences, Inc. (“we”, “our”, “the Company”) is focused on solving the challenging problems inherent in biological sample preparation, a crucial laboratory step performed by scientists worldwide working in biological life sciences research. Sample preparation is a term that refers to a wide range of activities that precede most forms of scientific analysis. Sample preparation is often complex, time-consuming and, in our belief, one of the most error-prone steps of scientific research. It is a widely-used laboratory undertaking – the requirements of which drive what we believe is a large and growing worldwide market. We have developed and patented a novel, enabling technology platform that can control the sample preparation process. It is based on harnessing the unique properties of high hydrostatic pressure. This process, called pressure cycling technology, or PCT, uses alternating cycles of hydrostatic pressure between ambient and ultra-high levels i.e., 35,000 pounds per square inch (“*psi*”) or greater to safely, conveniently and reproducibly control the actions of molecules in biological samples, such as cells and tissues from human, animal, plant and microbial sources.

Our pressure cycling technology uses internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels at controlled temperatures and specific time intervals, to rapidly and repeatedly control the interactions of bio-molecules, such as deoxyribonucleic acid (“*DNA*”), ribonucleic acid (“*RNA*”), proteins, lipids and small molecules. Our laboratory instrument, the Barocycler®, and our internally developed consumables product line, which include our Pressure Used to Lyse Samples for Extraction (“*PULSE*”) tubes, and other processing tubes, and application specific kits such as consumable products and reagents, together make up our PCT Sample Preparation System (“*PCT SPS*”).

2) Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, we have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of June 30, 2015, we do not have adequate working capital resources to satisfy our current liabilities and as a result, there is substantial doubt regarding our ability to continue as a going concern. We have been successful in raising cash through debt and equity offerings in the past and as described in Note 6, completed debt financing subsequent to June 30, 2015. We have financing efforts in place to continue to raise cash through debt and equity offerings.

Management has developed a plan to continue operations. This plan includes obtaining equity or debt financing. During the six months ended June 30, 2015 we received $2,601,565 net proceeds, in additional convertible and non-convertible debt. Although we have successfully completed financings and reduced expenses in the past, we cannot assure you that our plans to address these matters in the future will be successful.

We need substantial additional capital to fund normal operations in future periods. In the event that we are unable to obtain financing on acceptable terms, or at all, we will likely be required to cease our operations, pursue a plan to sell our operating assets, or otherwise modify our business strategy, which could materially harm our future business prospects. These financial statements do not include any adjustments that might result from this uncertainty.

3) Interim Financial Reporting

The accompanying unaudited condensed consolidated financial statements of Pressure BioSciences, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended December 31, 2014 as filed with the Securities and Exchange Commission on March 31, 2015.

4) Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Pressure BioSciences, Inc., and its wholly-owned subsidiary PBI BioSeq, Inc. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

To prepare our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we are required to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates were made in projecting future cash flows to quantify deferred tax assets, the costs associated with fulfilling our warranty obligations for the instruments that we sell, and the estimates employed in our calculation of fair value of stock options awarded and warrant derivative liability. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates and assumptions used.

Concentrations

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, and trade receivables. We have cash investment policies which, among other things, limit investments to investment-grade securities. We perform ongoing credit evaluations of our customers, and the risk with respect to trade receivables is further mitigated by the fact that many of our customers are government institutions, large pharmaceutical and biotechnology companies, and academic laboratories.

The following table illustrates the level of concentration as a percentage of total revenues during the three months and six months ended June 30, 2015 and 2014.

	For the Three Months Ended June 30,	
	2015	2014
Top Five Customers	65%	64%
Federal Agencies	27%	3%

	For the Six Months Ended June 30,	
	2015	2014
Top Five Customers	49%	42%
Federal Agencies	22%	2%

The following table illustrates the level of concentration as a percentage of net accounts receivable balance as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Top Five Customers	70%	86%
Federal Agencies	1%	9%

Product Supply

BIT Group, Inc. has been our sole contract manufacturer for our PCT NEP3229 and NEP2320 instrumentation.

Computation of Loss per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if dilutive potential common shares had been issued. For purposes of this calculation, convertible preferred stock, common stock dividends, and warrants and options to acquire common stock, are all considered common stock equivalents in periods in which they have a dilutive effect and are excluded from this calculation in periods in which these are anti-dilutive to our net loss.

The following table illustrates our computation of loss per share for the three months and six months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net loss	$(1,386,241)	$(603,187)	$(2,772,232)	$(2,362,842)
Accrued dividend for Preferred Stock	(6,811)	(9,606)	(23,479)	(54,593)
Deemed dividend on Series K Convertible Preferred Stock	-	(107,996)	-	(1,388,062)
Net loss applicable to common shareholders	$(1,393,052)	$(720,789)	$(2,795,711)	$(3,805,497)
Denominator for basic and diluted loss per share:				
Weighted average common stock shares outstanding	19,682,632	13,567,472	19,247,895	12,848,751
Loss per common share - basic and diluted	$(0.07)	$(0.05)	$(0.14)	$(0.30)

The following table presents securities that could potentially dilute basic loss per share in the future. For all periods presented, the potentially dilutive securities were not included in the computation of diluted loss per share because these securities would have been anti-dilutive to our net loss. The Series D Convertible Preferred Stock, Series G Convertible Preferred Stock, Series H Convertible Preferred Stock, Series J Convertible Preferred Stock and Series K Convertible Preferred Stock are presented below as if they were converted into common shares according to the conversion terms.

For the Six Months Ended June 30,	
2015	2014

Stock options	3,251,250	1,585,750
Convertible debt	14,420,144	917,860
Common stock warrants	19,182,201	17,757,044
Convertible preferred stock:		
Series D Convertible Preferred Stock	750,000	750,000
Series G Convertible Preferred Stock	865,700	865,700
Series H Convertible Preferred Stock	1,000,000	1,000,000
Series H2 Convertible Preferred Stock	2,100,000	-
Series J Convertible Preferred Stock	3,546,000	4,995,000
Series K Convertible Preferred Stock	11,416,000	11,463,000
	56,531,295	39,334,354

Accounting for Stock-Based Compensation Expense

We maintain equity compensation plans under which incentive stock options and non-qualified stock options are granted to employees, independent members of our Board of Directors and outside consultants. We recognize stock-based compensation expense over the requisite service period using the Black-Scholes formula to estimate the fair value of the stock options on the date of grant.

Determining Fair Value of Stock Option Grants

Valuation and Amortization Method - The fair value of each option award is estimated on the date of grant using the Black-Scholes pricing model based on certain assumptions. The estimated fair value of employee stock options is amortized to expense using the straight-line method over the vesting period.

Expected Term - The Company uses the simplified calculation of expected life, as the Company does not currently have sufficient historical exercise data on which to base an estimate of expected term. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted.

Expected Volatility - Expected volatility is based on the Company's historical stock volatility data over the expected term of the award.

Risk-Free Interest Rate - The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Forfeitures - The Company records stock-based compensation expense only for those awards that are expected to vest. The Company estimated a forfeiture rate of 5% for awards granted based on historical experience and future expectations of options vesting. The Company used this historical rate as our assumption in calculating future stock-based compensation expense.

The Company recognized stock-based compensation expense of $55,616 and $21,488 for the three months ended June 30, 2015 and 2014, respectively. The following table summarizes the effect of this stock-based compensation expense within each of the line items of our costs and expenses within our Condensed Consolidated Statements of Operations:

	For the Three Months Ended June 30,	
	2015	2014
Research and development	$11,523	$10,301
Selling and marketing	7,099	5,914
General and administrative	36,994	5,273
Total stock-based compensation expense	$55,616	$21,488

We recognized stock-based compensation expense of $110,506 and $40,384 for the six months ended June 30, 2015 and 2014, respectively. The following table summarizes the effect of this stock-based compensation expense within each of the line items of our costs and expenses within our Condensed Consolidated Statements of Operations:

	For the Six Months Ended June 30,	
	2015	2014
Research and development	$22,865	$17,854
Selling and marketing	14,075	11,905
General and administrative	73,566	10,625
Total stock-based compensation expense	$110,506	$40,384

Fair Value of Financial Instruments

Due to their short maturities, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate their fair value. Long-term liabilities are primarily related to liabilities transferred under contractual arrangements with carrying values that approximate fair value.

Fair Value Measurements

The Company follows the guidance of FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*" ("ASC 820") as it related to all financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

The Company generally defines fair value as 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 (exit price). The Company uses a three-tier fair value hierarchy, which classifies the inputs used in measuring fair values. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring the Company to develop its own assumptions.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company has determined that it does not have any financial assets measured at fair value and that its financial liabilities are currently all classified within Level 3 in the fair value hierarchy. The development of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's management.

The following tables set forth the Company's financial liabilities that were accounted for at fair value on a recurring basis as of June 30, 2015.

	June 30, 2015	Fair value measurements at June 30, 2015 using: Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Series D Preferred Stock Purchase Warrants	$124,643	-	-	$ 124,643
Conversion Option Liabilities	1,731,650	-	-	1,731,650
Total Derivatives	$1,856,293	-	-	$ 1,856,293

	January 1, 2015	Issuance fair value	Change in fair value	Gain on extinguishment of embedded derivative liabilities	June 30, 2015
Series D Preferred Stock Purchase Warrants	$159,875	-	$(35,232)	-	$124,643
Conversion Option Liabilities	590,341	2,032,181	(42,799)	(848,073)	1,731,650
Total Derivatives	$750,216	$2,032,181	$(78,031)	$ (848,073)	$1,856,293

The assumptions for the binomial pricing model are represented in the table below for the warrants issued in the Series D private placement reflected on a per share common stock equivalent basis.

Assumptions	November 10, 2011	Warrants revalued at December	Warrants revalued at June 30,

			31, 2014		**2015**	
Expected life (in months)	60.0		22.0		16.0	
Expected volatility	104.5	%	116.0	%	116.1	%
Risk-free interest rate	0.875	%	0.58	%	0.48	%
Exercise price	$ 0.81		$ 0.25		$ 0.25	
Fair value per warrant	$ 0.54		$ 0.15		$ 0.12	

The assumptions for the binomial pricing model are represented in the table below for the conversion options reflected on a per share common stock equivalent basis.

Assumptions	**At Issuance fair value**	**At Settlement fair value**	**Conversion options revalued at June 30, 2015**
Expected life (in months)	6-24	0-6	2-21
Expected volatility	104.2-153.8%	0.8-142.2%	88.6-130.6%
Risk-free interest rate	0.05-0.99%	0.01-0.18%	0.01-0.54%
Exercise price	$0.10-$0.35	$0.10-$0.16	$0.11-$0.25
Fair value per conversion option	$0.09-$0.28	$0.10-$0.26	$0.08-$0.16

5) Commitments and Contingencies

Operating Leases

Our corporate offices are currently located at 14 Norfolk Avenue, South Easton, Massachusetts 02375. In November 2007, we signed a lease agreement commencing in February 2008 pursuant to which we lease approximately 5,500 square feet of office space. We extended the lease term until December 31, 2015 with a monthly payment of $4,800.

In September 2014 we moved to approximately 855 square feet of lab space in Medford, MA with a monthly payment of $3,094. The lease term runs until December 31, 2017.

Rental costs are expensed as incurred. During the six months ended June 30, 2015 and 2014 we incurred $50,406 and $61,800 in rent expense, respectively for the use of our corporate office and research and development facilities.

Government Grants

We have received a $1 million NIH SBIR Phase II Grant. Under the grant, the NIH has committed to pay the company to develop a high-throughput, high pressure-based DNA Shearing System for Next Generation Sequencing applications.

6) Convertible Debt and Other Debt

On February 2, 2015, we signed a convertible debenture in the amount of $100,000. The lender paid an initial payment of $95,000 net of fees of $5,000. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company’s common stock at a price of 65% of the average of the three lowest closing prices of the Company’s shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least 3,000,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $75,525 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on February 2, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $62,219 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $100,000 is offset by a debt discount of $67,219 which will be amortized to interest expense over the expected twelve month life of the debt.

On July 31, 2015, subsequent to the end of the June 30, 2015 reporting period, we paid off this $100,000 convertible note in its entirety.

On February 2, 2015, we signed a convertible debenture in the amount of $120,000. The lender paid an initial payment of $115,000 net of fees of $5,000. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the average of the three lowest closing prices of the Company's shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least 2,886,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $90,630 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on February 2, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $74,663 to the convertible option and accounted for as a liability in the Company’s condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $120,000 is offset by a debt discount of $79,663 which will be amortized to interest expense over the expected twelve month life of the debt.

On July 31, 2015, subsequent to the end of the June 30, 2015 reporting period, we paid off this $120,000 convertible note in its entirety.

On February 22, 2015, we signed a convertible debenture in the amount of $100,000. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company’s common stock at a price of 65% of the volume weighted average price (“VWAP”) of the Company’s shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least three times the number of shares of common stock for full conversion of this debenture. The maturity date is six months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $79,335 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on February 22, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $61,597 to the convertible option and accounted for as a liability in the Company’s condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $100,000 is offset by a debt discount of $61,597 which will be amortized to interest expense over the expected twelve month life of the debt.

On July 31, 2015, subsequent to the end of the June 30, 2015 reporting period, we paid off this $100,000 convertible note in its entirety.

On February 25, 2015, we signed a convertible debenture in the amount of $112,500. The Company received $108,500 net of $4,000 in fees. An interest charge of 8% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 55% of the average of the three lowest closing prices of the Company's shares during the 30 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least six times the number of shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $127,192 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on February 25, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $312,847 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $112,500 is offset by a debt discount of $112,500 which will be amortized to interest expense over the expected nine month life of the debt. The residual amount of debt discount of $204,347 in excess of the principal of $112,500 is charged to other expense on the condensed consolidated statement of operations.

On March 4, 2015, we signed a convertible debenture in the amount of $52,500. The Company received $50,000 net of $2,500 in fees. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the average of the three lowest closing prices of the Company's shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 38% of the principal balance. The Company is required to reserve at least 873,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $42,386 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on March 4, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $53,213 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $52,500 is offset by a debt discount of $52,500 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $3,213 in excess of the principal of $52,500 is charged to other expense on the condensed consolidated statement of operations.

On March 6, 2015, we signed a convertible debenture in the amount of $236,250. The company received $211,800 net of $24,450 in fees including $9,450 of restricted stock. An interest charge of 2% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the volume weighted average price ("VWAP") of the Company's shares during the 3 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 35% of the principal balance. The Company is required to reserve at least 3,000,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $145,216 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on March 6, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $212,918 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $236,250 is offset by a debt discount of $236,250 which will be amortized to interest expense over the expected six month life of the debt.

On March 17, 2015, we signed a convertible debenture in the amount of $50,000. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the lowest volume weighted average price ("VWAP") of the Company's shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least 1,000,000 shares of common stock for full conversion of this debenture. The maturity date is twenty-four months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $53,686 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on March 17, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $64,382 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $50,000 is offset by a debt discount of $50,000 which will be amortized to interest expense over the expected twenty-four month life of the debt. The residual amount of debt discount of $14,382 in excess of the principal of $50,000 is charged to other expense on the condensed consolidated statement of operations.

On March 20, 2015, we signed a convertible debenture in the amount of $25,000. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the volume weighted average price ("VWAP") of the Company's shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least three times the number of shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $20,483 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on March 20, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $25,077 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $25,000 is offset by a debt discount of $25,000 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $77 in excess of the principal of $25,000 is charged to other expense on the condensed consolidated statement of operations.

On March 26, 2015, we signed a convertible debenture in the amount of $150,000. The Company received $148,000 net of $2,000 in fees. An interest charge of 6% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the average of the three lowest prices of the Company's shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 37.5% of the principal balance. The Company is required to reserve at least 3,336,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $160,227 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on March 26, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $164,501 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $150,000 is offset by a debt discount of $150,000 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $16,501 in excess of the principal of $150,000 is charged to other expense on the condensed consolidated statement of operations.

On March 27, 2015, we signed a convertible debenture in the amount of $52,500. The Company received $50,000 net of $2,500 in fees. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the average of the three lowest prices of the Company's shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 38% of the principal balance. The Company is required to reserve at least 873,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $49,203 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on March 27, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $57,502 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $52,500 is offset by a debt discount of $52,500 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $7,502 in excess of the principal of $52,500 is charged to other expense on the condensed consolidated statement of operations.

On March 27, 2015, we signed a convertible debenture in the amount of $100,000. The Company received $92,000 net of $8,000 in fees. An interest charge of 8% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 55% of the average of the three lowest prices of the Company's shares during the 20 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 38% of the principal balance. The Company is required to reserve at least 5,000,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $100,292 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on March 27, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $154,359 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $100,000 is offset by a debt discount of $100,000 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $62,359 in excess of the principal of $100,000 is charged to other expense on the condensed consolidated statement of operations.

On July 24, 2015, subsequent to the end of the June 30, 2015 reporting period, we paid off this $100,000 convertible note in its entirety.

On April 1, 2015, we signed a convertible debenture in the amount of $100,000. An interest charge of 8% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 60% of the average of the three lowest prices of the Company's shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 25% to 35% of the principal balance. The Company is required to reserve five times the shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $126,037 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on April 1, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $155,793 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $100,000 is offset by a debt discount of $100,000 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $55,793 in excess of the principal of $100,000 is charged to other expense on the condensed consolidated statement of operations.

On April 20, 2015, we signed a convertible debenture in the amount of $81,250. The Company received $74,687 net of $6,563 in fees. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 55% of the average of the three lowest prices of the Company's shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties of 20% of the principal balance. The Company is required to reserve at least 1,500,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $102,350 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on April 20, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $117,679 to the convertible option and accounted for as a liability in the Company’s condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $81,250 is offset by a debt discount of $81,250 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $42,992 in excess of the principal of $81,250 is charged to other expense on the condensed consolidated statement of operations.

On July 24, 2015, subsequent to the end of the June 30, 2015 reporting period, we paid off this $81,250 convertible note in its entirety.

On April 28, 2015, we signed a convertible debenture in the amount of $54,050. The Company received $50,000 net of $4,050 in fees. An interest charge of 9% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company’s common stock at a price of $0.25 subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. The Company is required to reserve at least 650,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $17,022 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on April 28, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $35,143 to the convertible option and accounted for as a liability in the Company’s condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $54,050 is offset by a debt discount of $39,193 which will be amortized to interest expense over the expected eight month life of the debt.

On May 12, 2015, we signed a convertible debenture in the amount of $107,763. The Company received $100,000 net of $7,763 in fees. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company’s common stock at a price of 55% of the average of the three lowest prices of the Company’s shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties of 20% of the principal balance. The Company is required to reserve at least 1,500,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $136,302 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on May 12, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $145,527 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $107,763 is offset by a debt discount of $107,763 which will be amortized to interest expense over the expected twelve month life of the debt. The residual amount of debt discount of $45,527 in excess of the principal of $107,763 is charged to other expense on the condensed consolidated statement of operations.

On May 20, 2015, we signed a convertible debenture in the amount of $100,000. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the VWAP of the Company's shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 9.5 % to 33% of the principal balance. The Company is required to reserve three times the number of shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $84,145 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on May 20, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $92,715 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $100,000 is offset by a debt discount of $92,715 which will be amortized to interest expense over the expected twelve month life of the debt.

On May 26, 2015, we signed a convertible debenture in the amount of $63,500. The Company received $60,000 net of $3,500 in fees. An interest charge of 8% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 55% of the average of the three lowest prices of the Company's shares during the 30 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 10% to 35% of the principal balance. The Company is required to reserve six times the number of shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $80,392 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on May 26, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $79,287 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $63,500 is offset by a debt discount of $63,500 which will be amortized to interest expense over the twelve month life of the debt. The residual amount of debt discount of $19,287 in excess of the principal of $63,500 is charged to other expense on the condensed consolidated statement of operations.

On July 24, 2015, subsequent to the end of the June 30, 2015 reporting period, we paid off this $63,500 convertible note in its entirety.

On June 23, 2015, we signed a convertible debenture in the amount of $126,000. The Company received $120,000 net of $6,000 in fees. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the average of the three lowest prices of the Company's shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least 3,101,000 shares of common stock for full conversion of this debenture. The maturity date is twelve months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $110,261 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on June 23, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $108,297 to the convertible option and accounted for as a liability in the Company’s condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $126,000 is offset by a debt discount of $114,297 which will be amortized to interest expense over the expected twelve month life of the debt.

On June 24, 2015, we signed a convertible debenture in the amount of $50,000. An interest charge of 4% per annum will be applied to the principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company’s common stock at a price of 65% of the lowest VWAP of the Company’s shares during the 10 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 33% of the principal balance. The Company is required to reserve at least 1,000,000 shares of common stock for full conversion of this debenture. The maturity date is twenty-four months after the effective date of the payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was $55,936 at June 30, 2015 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on June 24, 2015 were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of $54,511 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of $50,000 is offset by a debt discount of $50,000 which will be amortized to interest expense over the expected twenty-four month life of the debt. The residual amount of debt discount of $4,511 in excess of the principal of $50,000 is charged to other expense on the condensed consolidated statement of operations.

During the six month period ended June 30, 2015 the company paid off seven convertible notes. As a result of the settlement of the notes, the fair value of conversion options embedded in these notes was measured on the date they were paid off and the remaining aggregate value of $848,073 was recognized as a gain on the extinguishment of embedded derivative liabilities in the consolidated statement of operations. In connection with the payoff of the convertible notes, the Company paid pre-payment penalties totaling $172,800.

Other Notes

On January 15, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received $150,000 in exchange for rights to all customer receipts until the lender is paid $187,500, to be collected at the rate of $744 per business day. The payments are secured by essentially all tangible assets of the Company. $67,925 of the proceeds were used to pay off the outstanding balance of a previous loan from this lender. The Company paid $1,875 in fees in connection with this loan. The outstanding balance was recorded as other debt on the balance sheet.

On January 29, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received $200,000 in exchange for rights to all customer receipts until the lender is paid $278,000, to be collected at the rate of $1,985 per business day. The payments are secured by essentially all tangible assets of the Company. The Company paid $999 in fees in connection with this loan. The outstanding balance is recorded as other debt on the balance sheet.

On March 17, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received $50,000 in exchange for rights to all customer receipts until the lender is paid $67,450, to be collected at the rate of $559 per business day. The payments are secured by essentially all tangible assets of the Company. The Company paid $999 in fees in connection with this loan. The outstanding balance is recorded as other debt on the balance sheet.

On May 29, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received $100,000 in exchange for rights to all customer receipts until the lender is paid $132,000, to be collected at the rate of $1,098 per business day. The payments are secured by essentially all tangible assets of the Company. The Company paid $3,999 in fees in connection with this loan. The outstanding balance is recorded as other debt on the balance sheet.

During the quarter ended June 30, 2015 we signed two ninety day notes with an investor. Under the terms of the notes, the company received a total of $500,000. The investor may choose to receive warrants or may choose to convert these loans in future company offerings at favorable terms.

During the six months ended June 30, 2015, the Company made payments of $333,641 in total on the non-convertible debt from non-related parties. As of June 30, 2015, the outstanding balance is $740,839 for other debt.

7) Stockholders' Deficit

Preferred Stock

We are authorized to issue 1,000,000 shares of preferred stock with a par value of $0.01. Of the 1,000,000 shares of preferred stock:

1) 20,000 shares have been designated as Series A Junior Participating Preferred Stock ("*Junior A*")
2) 313,960 shares have been designated as Series A Convertible Preferred Stock ("*Series A*")
3) 279,256 shares have been designated as Series B Convertible Preferred Stock ("*Series B*")
4) 88,098 shares have been designated as Series C Convertible Preferred Stock ("*Series C*")
5) 850 shares have been designated as Series D Convertible Preferred Stock ("*Series D*")
6) 500 shares have been designated as Series E Convertible Preferred Stock *("Series E")*
7) 240,000 shares have been designated as Series G Convertible Preferred Stock ("*Series G*")
8) 10,000 shares have been designated as Series H Convertible Preferred Stock ("*Series H*")
9) 21 shares have been designated as Series H2 Convertible Preferred Stock ("*Series H2*")
10) 6,250 shares have been designated as Series J Convertible Preferred Stock ("*Series J*")
11) 15,000 shares have been designated as Series K Convertible Preferred Stock ("*Series K*")

As of June 30, 2015, there were no shares of Junior A, and Series A, B, C and E issued and outstanding. See our Annual Report on Form 10-K for the year ended December 31, 2014 for the pertinent disclosures of preferred stock.

Stock Options and Warrants

Our stockholders approved our amended 2005 Equity Incentive Plan (the "Plan") pursuant to which an aggregate of 1,800,000 shares of our common stock were reserved for issuance upon exercise of stock options or other equity awards made under the Plan. Under the Plan, we may award stock options, shares of common stock, and other equity interests in the Company to employees, officers, directors, consultants, and advisors, and to any other persons the Board of Directors deems appropriate. As of June 30, 2015, options to acquire 1,720,750 shares were outstanding under the Plan with 79,250 shares available for future grant under the Plan.

As of June 30, 2015, options to acquire 10,000 shares are outstanding under the 1999 Non-qualified Stock Option Plan. No additional options may be granted under the 1999 Non-qualified Stock Option Plan.

On December 12, 2013 at the Company's special meeting the shareholders approved the 2013 Equity Incentive Plan (the "*2013 Plan*") pursuant to which 3,000,000 shares of our common stock were reserved for issuance upon exercise of stock options or other equity awards under the 2013 Plan. Under the Plan, we may award stock options, shares of common stock, and other equity interests in the Company to employees, officers, directors, consultants, and advisors, and to any other persons the Board of Directors deems appropriate. As of June 30, 2015 1,675,500 options have been granted under the 2013 Plan.

The following tables summarize information concerning options and warrants outstanding and exercisable:

	Stock Options		Warrants			
	Shares	Weighted Average price per share	Shares	Weighted Average price per share	Total Shares	Exercisable
Balance outstanding, January 1, 2014	1,771,708	$ 0.71	15,012,327	$ 0.57	16,784,035	16,611,528
Granted	1,675,500	0.30	8,903,000	0.38	10,578,500	
Exercised	-	-	(4,208,658)	0.25	(4,208,658)	
Expired	(10,000)	1.00	(524,468)	0.74	(534,468)	
Forfeited	(30,958)	0.71	-	-	(30,958	
Balance outstanding, December 31, 2014	3,406,250	$ 0.51	19,182,201	$ 0.49	22,588,451	20,858,111
Granted	-	-	-	-	-	
Exercised	-	-	-	-	-	
Expired	(155,000)	1.00	-	-	-	
Forfeited	-	-	-	-	-	
Balance outstanding, June 30, 2015	3,251,250	$ 0.49	19,182,201	$ 0.49	22,588,451	21,315,198

	Options Outstanding Weighted Average			Options Exercisable Weighted Average		
Range of Exercise Prices	Number of Options	Remaining Contractual Life (Years)	Exercise Price	Number of Options	Remaining Contractual Life (Years)	Exercise Price
$0.30 - $0.39	1,675,500	9.2	$ 0.30	666,161	9.2	$ 0.30
0.40 - 0.49	311,000	7.9	0.40	311,000	7.9	0.40
0.50 - 0.59	251,250	7.1	0.50	251,250	7.1	0.50
0.60 - 0.69	467,500	4.5	0.60	445,471	4.4	0.60
1.00 - 1.25	546,000	2.3	1.00	539,127	2.2	1.00
$0.30 - $1.25	3,251,250	7.1	$ 0.49	2,213,009	6.1	$ 0.57

As of June 30, 2015, the total estimated fair value of unvested stock options to be amortized over their remaining vesting period was $168,931. The non-cash, stock-based compensation expense associated with the vesting of these options is expected to be $26,247 for the remainder of 2015, $83,440 in 2016 and $59,244 in 2017.

Common Stock Issuances

With respect to the convertible debenture for $223,000 signed by the Company on December 4, 2013, a lender, with the prior approval of the Company, chose to convert a portion of the outstanding note balance into shares of the Company's common stock, and to extend the note for approximately 45 days after each conversion, as follows:

On January 14, 2015 $25,000 was converted into 100,000 shares of the Company's common stock.

On February 25, 2015 $38,000 was converted into 140,741 shares of the Company's common stock.

On April 10, 2015 $35,000 was converted into 140,000 shares of the Company's common stock.

On May 29, 2015 $35,000 was converted into 140,000 shares of the Company's common stock.

For each extension, the Company paid a fee of $13,000, $13,000, $10,000, and $8,000, respectively.

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With respect to the convertible debenture for $150,000 signed by the Company on June 4, 2014, a lender, with prior approval of the Company, chose to convert a portion of the outstanding note balance into shares of the Company's common stock, and to extend the note for approximately 30 days after each conversion, as follows:

On February 18, 2015 $25,000 was converted into 100,000 shares of the Company's common stock.

On March 18, 2015 $22,500 was converted into 90,000 shares of the Company's common stock.

On March 31, 2015 $27,500 was converted into 110,000 shares of the Company's common stock.

On April 17, 2015 $30,000 was converted into 120,000 shares of the Company's common stock.