

CareTrust REIT, Inc.  
Form DEF 14A  
April 14, 2016  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-2

**CARETRUST REIT, INC.**

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - 1) Title of each class of securities to which the transaction applies:
  
  
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4) Date Filed:

**Table of Contents**

**CARETRUST REIT, INC.**

**905 Calle Amanecer, Suite 300**

**San Clemente, California 92673**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD MAY 25, 2016**

TO THE STOCKHOLDERS OF CARETRUST REIT, INC.:

The annual meeting of the stockholders (the Annual Meeting ) of CareTrust REIT, Inc. (the Company, we, our, or us) will be held at the Company's offices located at 905 Calle Amanecer, Suite 300, San Clemente, California 92673, at 9:00 a.m. PDT, on Wednesday, May 25, 2016, for the following purposes:

- (1) to elect Mr. Jon D. Kline and Mr. David G. Lindahl to the Board of Directors as Class II directors, to serve until the Company's 2019 annual meeting of stockholders and until their respective successors are elected and qualified;
- (2) to ratify the selection of Ernst & Young LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2016; and
- (3) to transact such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

The accompanying Proxy Statement more fully describes these matters and we urge you to read the information contained in the Proxy Statement carefully. The Board of Directors recommends a vote **FOR ALL** with respect to the election of Mr. Kline and Mr. Lindahl as Class II directors and **FOR** the ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm. In addition to the business to be transacted as described above, management will speak about recent developments and respond to questions of general interest to stockholders.

**ONLY STOCKHOLDERS OF RECORD OF THE COMPANY'S ISSUED AND OUTSTANDING COMMON STOCK AS OF THE CLOSE OF BUSINESS ON APRIL 1, 2016, THE RECORD DATE, WILL BE ENTITLED TO NOTICE OF AND TO VOTE AT THE ANNUAL MEETING AND ANY ADJOURNMENT OR POSTPONEMENT THEREOF.**

**Your vote is important. Whether or not you expect to attend the Annual Meeting, please submit your proxy as soon as possible.** In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission, we have elected to furnish our proxy materials, including our Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (our Annual Report ) to stockholders on the Internet. Accordingly, we are mailing a Notice of Internet Availability of Proxy Materials (the Notice of Internet Availability ) to our stockholders that did not request to receive paper copies of our proxy materials and Annual Report. The Notice of Internet Availability contains instructions on how stockholders can access those documents over the Internet and vote their shares. All stockholders who do not receive a Notice of Internet Availability will receive a printed copy of the proxy materials by mail.

CARETRUST REIT, INC.  
BY ORDER OF THE BOARD OF  
DIRECTORS

GREGORY K. STAPLEY

CHAIRMAN, PRESIDENT AND CHIEF  
EXECUTIVE OFFICER

San Clemente, California

Dated: April 14, 2016

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS	
<u>IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS</u>	1
<u>GENERAL INFORMATION ABOUT THE ANNUAL MEETING</u>	1
<u>PROPOSAL 1: ELECTION OF DIRECTORS</u>	5
<u>CORPORATE GOVERNANCE</u>	8
<u>PROPOSAL 2: APPROVAL OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	13
<u>AUDIT COMMITTEE REPORT</u>	15
<u>EXECUTIVE OFFICERS</u>	16
<u>EXECUTIVE COMPENSATION</u>	17
<u>DIRECTOR COMPENSATION</u>	21
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	23
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	24
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	26
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	27
<u>STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS FOR 2017 ANNUAL MEETING</u>	28
<u>OTHER MATTERS</u>	28
<u>DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING AN ADDRESS</u>	29
<u>AVAILABLE INFORMATION</u>	30

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**Table of Contents**

**CARETRUST REIT, INC.**  
**905 Calle Amanecer, Suite 300**  
**San Clemente, California 92673**  
**Proxy Statement**  
**For the Annual Meeting of Stockholders**  
**to be Held on May 25, 2016**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board of Directors or the Board) of CareTrust REIT, Inc., a Maryland corporation, for use at the annual meeting of stockholders to be held at the Company's offices located at 905 Calle Amanecer, Suite 300, San Clemente, California 92673, at 9:00 a.m. PDT, on Wednesday, May 25, 2016 (the Annual Meeting). On or about April 14, 2016, proxy materials for the Annual Meeting, including this Proxy Statement and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (Annual Report), are being made available to stockholders entitled to vote at the Annual Meeting.

When used in this Proxy Statement, the terms *we*, *us*, *our*, or the *Company* refer to CareTrust REIT, Inc. and its subsidiaries unless the context requires otherwise.

**IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS**

This Proxy Statement and our Annual Report are available on the Internet at *www.proxyvote.com*. These materials are also available on the *Investor* section of our website at *www.caretrustreit.com*. The other information on our website does not constitute part of this Proxy Statement.

**GENERAL INFORMATION ABOUT THE ANNUAL MEETING**

**Items of Business to be Voted on at the Annual Meeting**

At the Annual Meeting, the stockholders of the Company will be asked to vote on two proposals:

the election of Mr. Jon D. Kline and Mr. David G. Lindahl to the Board of Directors as Class II directors, to serve until the Company's 2019 annual meeting of stockholders and until their respective successors are elected and qualified (Proposal 1); and

the ratification of the selection of Ernst & Young LLP (E&Y) as the Company's independent registered public accounting firm for the year ending December 31, 2016.

We will also consider other business that properly comes before the Annual Meeting.

The Board of Directors recommends you vote **FOR ALL** with respect to the election to the Board of each of Mr. Kline and Mr. Lindahl as Class II directors and **FOR** the ratification of the selection of E&Y as the Company's

independent registered public accounting firm for the year ending December 31, 2016.

### **Available Voting Methods**

**Your vote is very important.** Whether or not you plan to attend the Annual Meeting in person, you should vote your shares by using one of the methods described below to ensure your shares will be counted.

*Stockholder of record.* If your shares are registered directly in your name with our transfer agent, Broadridge Corporate Issuer Solutions, Inc., you are considered the stockholder of record with respect to those shares and the proxy materials were made available directly to you by the Company. As a stockholder of record,



## **Table of Contents**

you may vote your shares in person at the Annual Meeting, or by submitting a proxy over the Internet by following the instructions provided in the Notice of Internet Availability. If you received a printed copy of the proxy materials, you can also submit a proxy by mail or telephone pursuant to the instructions provided in the proxy card enclosed with the proxy materials.

*Beneficial stockholder.* Most of our stockholders hold their shares through a broker, bank or other nominee (that is, in street name ) rather than directly in their own name. If your shares are held in street name, you are considered the beneficial stockholder of such shares and the proxy materials were made available to you by the organization holding your shares. As a beneficial stockholder, you may submit your voting instructions over the Internet by following the instructions provided in the Notice of Internet Availability, or, if you received a printed copy of the proxy materials, you can also submit voting instructions by telephone or mail by following the instructions provided in the voting instruction form sent by your broker, bank or other nominee. If you are a beneficial stockholder, you may not vote your shares in person at the Annual Meeting unless you obtain a legal proxy from the broker, bank or other nominee that holds your shares, giving you the right to vote the shares at the Annual Meeting.

If you receive more than one Notice of Internet Availability or set of proxy materials, it probably means your shares are registered differently (for instance, under different names) or are held in more than one account. Please follow the voting instructions on each Notice of Internet Availability, proxy card or voting instruction form you receive.

## **Record Date and Quorum Requirements**

Our Board of Directors has fixed April 1, 2016 as the record date (the Record Date ) for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. As of the Record Date, 57,921,549 shares of our common stock, par value \$0.01 per share (Common Stock ), were issued and outstanding. Each outstanding share of Common Stock will be entitled to one vote, and all shares of Common Stock will vote as a single class with respect to all matters submitted to a vote of the stockholders at the Annual Meeting.

In order to constitute a quorum for the conduct of business at the Annual Meeting, a majority of the votes entitled to be cast at the Annual Meeting must be present in person or represented by proxy at the Annual Meeting. Withheld votes, abstentions and broker non-votes will be counted as present and entitled to vote for purposes of determining the existence of a quorum.

## **Deadline for Voting Your Shares**

If you are a stockholder of record, your proxy must be received by telephone or the Internet by 11:59 p.m. Eastern Time on May 24, 2016 in order for your shares to be voted at the Annual Meeting. However, if you are a stockholder of record and you received a copy of the proxy materials by mail, you may instead mark, sign and date the proxy card you received and return it in the accompanying prepaid and addressed envelope so that it is received by the Company before the Annual Meeting in order for your shares to be voted at the Annual Meeting. If you hold your shares in street name, please provide your voting instructions by the deadline specified by the broker, bank or other nominee that holds your shares.

## **Changing Your Vote or Revoking a Previously Submitted Proxy**

If you are a stockholder of record, you have the power to change or revoke a previously submitted proxy at any time before it is exercised by: delivering to the Secretary of the Company, before the voting at the Annual Meeting, an instrument revoking such proxy; properly submitting a proxy on a later date via Internet or by telephone or mail; or by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not by itself constitute

revocation of a proxy. For shares held in street name, you may revoke any previous voting instructions by submitting new voting instructions to the broker, bank or other nominee holding your

## **Table of Contents**

shares by the deadline for voting specified in the voting instructions provided by your broker, bank or other nominee. Alternatively, if your shares are held in street name and you have obtained a legal proxy from the broker, bank or other nominee giving you the right to vote the shares at the Annual Meeting, any previous voting instructions will be revoked, and you may vote by attending the Annual Meeting and voting in person.

## **How Votes Are Counted at the Annual Meeting**

For purposes of Proposal 1 (election of directors), you may vote FOR ALL of the director nominees or FOR ALL EXCEPT one or more of the director nominees or you may WITHHOLD your vote from all of the director nominees. For Proposal 2 (ratification of the selection of E&Y as our independent registered public accounting firm), you may vote FOR, AGAINST or ABSTAIN. For Proposal 1, shares voted WITHHOLD will not be counted in determining the outcome of a director nominee's election. For Proposal 2, shares voted ABSTAIN will not be counted as a vote cast on the proposal and therefore will not be counted in determining the outcome of the proposal. Subject to revocation, the proxy holders will vote all shares represented by a properly submitted proxy received in time for the Annual Meeting in accordance with the instructions on the proxy.

If you hold your shares in street name through a brokerage account and you do not submit voting instructions to your broker, your broker may generally vote your shares in its discretion on routine matters. However, a broker cannot vote shares held in street name on non-routine matters unless the broker receives voting instructions from the stockholder. Proposal 2 (ratification of the selection of E&Y as our independent registered public accounting firm) is considered a routine matter, while Proposal 1 (election of directors) is considered a non-routine matter. Accordingly, if you hold your shares in street name and you do not submit voting instructions to your broker, your broker may exercise its discretion to vote your shares on Proposal 2, but will not be permitted to vote your shares on Proposal 1 at the Annual Meeting. If your broker exercises this discretion, your shares will be counted as present and entitled to vote for determining the presence of a quorum at the Annual Meeting and will be voted on Proposal 2 in the manner directed by your broker, but your shares will constitute broker non-votes on Proposal 1 and will not be counted in determining the outcome of the election of the director nominees named in Proposal 1.

If you properly submit a proxy or voting instructions but do not indicate your specific voting instructions on one or more of the items listed above in the Notice of Annual Meeting, your shares will be voted as recommended by the Board of Directors on those items.

## **Required Vote**

*Election of Directors (Proposal 1):* Our Amended and Restated Bylaws (Bylaws) provide for a plurality voting standard for the election of directors. Under this voting standard, the two director nominees receiving the highest number of affirmative votes of the votes cast at the Annual Meeting will be elected as Class II directors to serve until the 2019 annual meeting of stockholders and until their respective successors are duly elected and qualified.

*Other Items (Proposal 2):* Pursuant to our Bylaws, approval of each of the other items to be submitted for a vote of the stockholders at the Annual Meeting requires the affirmative vote of a majority of all of the votes cast on the proposal at the Annual Meeting.

Notwithstanding this vote standard required by our Bylaws, Proposal 2 (ratification of the selection of E&Y as our independent registered public accounting firm) is advisory only and is not binding on us. Our Board of Directors will consider the outcome of the vote on this item in considering what action, if any, should be taken in response to the vote by stockholders.

**Solicitation of Proxies**

The expenses of preparing, assembling, printing and mailing the Notice of Internet Availability, this Proxy Statement and the materials used in the solicitation of proxies will be borne by the Company. Proxies will be

**Table of Contents**

solicited through the Internet and the mail and may be solicited by our officers, directors and employees in person or by telephone or email. Our officers, directors and employees will not receive additional compensation for any such solicitation efforts. We do not anticipate paying any compensation to any other party for the solicitation of proxies but may reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to beneficial owners. We may retain the services of a proxy solicitation firm if, in the Board's view, it is deemed necessary or advisable. Although we do not currently expect to retain such a firm, we estimate that the fees of any such firm retained by us could be up to \$50,000 plus out-of-pocket expenses, all of which would be paid by us.

**Table of Contents****PROPOSAL 1: ELECTION OF DIRECTORS****General**

Our Board of Directors is currently comprised of five directors. Our charter, as amended and restated (Charter), provides for a classified Board of Directors consisting of three classes of directors, each as nearly equal in number as possible as determined by our Board of Directors, with each class of directors serving staggered three-year terms. As a result, a portion of our Board of Directors will be elected each year. Messrs. Kline and Lindahl have been designated Class II directors and their current term expires at the Annual Meeting. Messrs. Stapley and Sabin have been designated Class III directors and their current term expires at our 2017 annual meeting of stockholders. Mr. Barbieri has been designated a Class I director and his current term expires at our 2018 annual meeting of stockholders.

On the recommendation of the nominating and corporate governance committee of our Board of Directors, our Board of Directors selected Mr. Jon D. Kline and Mr. David G. Lindahl as its nominees for election to our Board at the Annual Meeting as Class II directors to serve for a term of three years until the 2019 annual meeting of stockholders and until their respective successors are duly elected and qualified or until his earlier resignation or removal.

Mr. Kline and Mr. Lindahl have each consented to being named in the Proxy Statement and to serve as a director if elected. We have no reason to believe that either Mr. Kline or Mr. Lindahl will be unable or unwilling for good cause to serve if elected. In the event Mr. Kline or Mr. Lindahl is unable for any reason or unwilling for good cause to serve at the time of the Annual Meeting, the persons named in the enclosed proxy may exercise discretionary authority to vote for a substitute nominee selected by our Board of Directors or our Board of Directors may reduce the number of directors on the Board.

**Directors and Director Nominees**

Set forth below is biographical information about Mr. Kline and Mr. Lindahl, as well as our continuing directors. Such information is current as of April 14, 2016. The information presented below for each director includes the specific experience, qualifications, attributes and skills that led us to the conclusion that such director should be nominated to serve on our Board of Directors in light of our business.

<b>Name</b>	<b>Position with the Company</b>	<b>Age</b>	<b>Director Since</b>
Allen C. Barbieri	Director	57	2015
Jon D. Kline	Director	49	2014
David G. Lindahl	Director	56	2014
Gary B. Sabin	Director	62	2014
Gregory K. Stapley	Chairman, President and Chief Executive Officer	56	2013

***Nominees for Election to the Board of Directors (Class II Directors)***

*Jon D. Kline* has served as a member of our Board of Directors since his appointment to the Board in 2014. Mr. Kline is the Founder and Chief Executive Officer of Clearview Hotel Capital, LLC, a privately-held hotel investment and advisory company focused on acquiring and asset-managing hotels in urban and unique locations. Mr. Kline founded Clearview Hotel Capital in 2007. He previously served as President and Chief Financial Officer of Sunstone Hotel Investors, Inc. (NYSE: SHO). Prior to Sunstone, Mr. Kline oversaw the U.S. hospitality and leisure investment banking practice at Merrill Lynch & Co., with responsibility for lodging, gaming, restaurants and other leisure

industries. Prior to Merrill Lynch, Mr. Kline was a real estate investment banker at Smith Barney, focused on lodging and other real estate asset classes. Prior to Smith Barney, Mr. Kline was an attorney with Sullivan & Cromwell LLP. Mr. Kline holds a B.A. in Economics from Emory University and a J.D. from New York University School of Law. Mr. Kline's executive leadership experience in a publicly-

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**Table of Contents**

traded REIT, his professional and educational background, his network of relationships with real estate professionals and his extensive background and experience in public markets and in real estate and finance transactions qualify him to serve on the Board.

*David G. Lindahl* has served as a member of our Board of Directors since his appointment to the Board in 2014. Mr. Lindahl is a partner and Managing Director of HPSI, Inc. (HPSI), a nationwide Group Purchasing Organization with operations serving over 10,000 hospitals, post-acute care providers, educational, hospitality and institutional clients, which collectively purchase over \$1 billion of goods and services through HPSI each year. He has been affiliated with HPSI in various capacities since 1981. During a portion of that time, he also served as President of HPSI affiliate The Home Place, an operating pediatric sub-acute facility. Mr. Lindahl's executive leadership experience in the healthcare industry, his entrepreneurship and creativity, and his network of relationships with healthcare operators and their trade associations across the United States, particularly the many smaller hospital systems and post-acute providers which constitute much of our target client base, qualify him to serve on the Board.

***Class III Directors***

*Gregory K. Stapley* has served as a member of our Board of Directors since the formation of CareTrust in 2013. Mr. Stapley is our Chairman, President and Chief Executive Officer. He has served as President and Chief Executive Officer since our inception in 2013 and was elected Chairman following the Spin-Off (as defined below). Prior to joining CareTrust, he served as Executive Vice President and Secretary of The Ensign Group, Inc. (Ensign), the company from which CareTrust was spun off in 2014, where he was instrumental in assembling the real estate portfolio that was transferred to CareTrust in the Spin-Off. A co-founder of Ensign, he also served as Ensign's Vice President, General Counsel and Assistant Secretary beginning shortly after Ensign's founding in 1999. Mr. Stapley previously served as General Counsel for the Sedgwick Companies, an Orange County-based manufacturer, wholesaler and retailer with 192 retail outlets across the United States. Prior to that, Mr. Stapley was a member of the Phoenix law firm of Jennings, Strouss & Salmon PLC, where his practice emphasized real estate and business transactions and government relations. Having served as Executive Vice President of Ensign since 2009 and as Vice President and General Counsel of Ensign from 1999 to 2009, Mr. Stapley brings to the Board extensive management experience, critical knowledge of our properties, substantial industry contacts and knowledge and understanding of the healthcare business in general.

*Gary B. Sabin* has served as a member of our Board of Directors since his appointment to the Board in 2014. Mr. Sabin is Chairman and Chief Executive Officer of Excel Realty Holdings, LLC, a real estate investment company focused on the acquisition, development and management of commercial properties in the U.S. and Asia, and has served in this position since 2003. His involvement in the real estate industry started with the founding of his real estate company in 1977. Since then, he has been actively involved in billions of dollars of real estate projects worldwide having operated give public real estate companies. Mr. Sabin is the former Chairman and Chief Executive Officer of Excel Trust, Inc. (NYSE: EXL), Chief Executive Officer of Price Legacy Corporation, Chairman and Chief Executive Officer of Excel Legacy Corporation, President of New Plan Excel Realty Trust and Chairman and Chief Executive Officer of Excel Realty Trust. He has been active for over 30 years in diverse aspects of the real estate industry, including the evaluation and negotiation of real estate acquisitions, management, financing, development and dispositions. Mr. Sabin also currently serves as director of Extra Space Storage Inc. (NYSE: EXR) and Chairman of The Sabin Children's Foundation and Vice Chairman of the Cystic Fibrosis Foundation. Mr. Sabin received a Master's Degree in Management from Stanford University as a Sloan Fellow, and a Bachelor of Science in Finance from Brigham Young University. Mr. Sabin's executive leadership experience in public real estate investment trusts and other real estate companies, his entrepreneurship and creativity, his network of relationships with real estate professionals across the United States and his experience in finance qualify to him to serve on the Board.





**Table of Contents**

***Class I Director***

*Allen C. Barbieri* has served as a member of our Board of Directors since his appointment to the Board in June 2015. Mr. Barbieri currently serves as the Chairman and Chief Executive Officer of Biosynthetic Technologies, LLC, and has served in this role since December 2009. Prior to this, Mr. Barbieri served on the Board of Directors and as Chief Executive Officer of Lancer Orthodontics, Inc. from April 2004 to June 2008. From 1999 to April 2004, Mr. Barbieri was semi-retired while serving as a director on several boards of directors of private companies. Mr. Barbieri has been a director of Biomerica, Inc. since 1999. From 1998 to 1999, Mr. Barbieri served as President and Chief Financial Officer of BUY.COM, a large internet retailer financed with over \$200 million in venture capital. From 1994 to 1998, Mr. Barbieri served as the President and Chief Executive Officer of Pacific National Bank, a commercial bank that was sold to US Bank in 1998. While at Pacific National Bank, Mr. Barbieri served as the Chief Executive Officer of Alta Residential Mortgage Trust, a mortgage REIT, whose largest stockholder and cofounder was Lehman Brothers. Prior to that, Mr. Barbieri served as President of Capital Bancorp, a commercial bank holding company, Chief Financial Officer of First Federal Bank, and as an Investment Banking Associate of Merrill Lynch Capital Markets in New York. Mr. Barbieri holds a Bachelor's Degree in Business Management from Brigham Young University and an MBA from the Massachusetts Institute of Technology, Sloan School of Management. Mr. Barbieri's leadership experience, his extensive management experience, financial markets experience, general financial knowledge and his executive leadership experience in a REIT qualify him to serve on our Board of Directors.

**Recommendation of the Board of Directors**

Our Board of Directors unanimously recommends that the stockholders vote **FOR ALL** of the director nominees listed above. Unless otherwise instructed, the proxy holders will vote the proxies received by them **FOR ALL** the director nominees.

**Table of Contents**

**CORPORATE GOVERNANCE**

**Director Independence**

Our Board of Directors has affirmatively determined that none of David G. Lindahl, Gary B. Sabin, Jon D. Kline or Allen C. Barbieri has a relationship that, in the opinion of the Board of Directors, would interfere with the director's exercise of independent judgment in carrying out his responsibilities as a director and that each such director is an independent director under the applicable rules of The NASDAQ Stock Market LLC (NASDAQ). In this Proxy Statement, the aforementioned directors are referred to individually as an Independent Director and collectively as the Independent Directors. Mr. Stapley does not qualify as an independent director because he is employed as our President and Chief Executive Officer. In addition, our Board of Directors previously determined that Mr. Christopher R. Christensen was not an independent director during his service on our Board of Directors until April 15, 2015 as result of his position as President and Chief Executive Officer of Ensign.

**Board Leadership Structure**

The Board does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board, as the Board believes it is in the best interests of the Company to make that determination based upon the position and direction of the Company and the membership of the Board. The Board has determined that having the Company's current Chief Executive Officer serve as Chairman makes the best use of the Chief Executive Officer's extensive knowledge of the Company and its industry, as well as fostering greater communication between the Company's management and the Board.

To promote the independence of the Board and appropriate oversight of management and to facilitate free and open communication among the Independent Directors, the Board has appointed Mr. Sabin as our lead independent director. The lead independent director's duties and responsibilities include, but are not limited to, the following: preside at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors; have authority to call meetings of the independent directors; and, where necessary, be available for consultation and direct communications with our stockholders.

**Board Role in Risk Oversight**

Our Board of Directors is responsible for overseeing the Company's management of risk. The Board strives to effectively oversee the Company's enterprise-wide risk management in a way that balances managing risks while enhancing the long-term value of the Company for the benefit of the stockholders. The Board of Directors understands that its focus on effective risk oversight is critical to setting the Company's tone and culture towards effective risk management. To administer its oversight function, the Board seeks to understand the Company's risk philosophy by having discussions with management to establish a mutual understanding of the Company's overall appetite for risk. Our Board of Directors maintains an active dialogue with management about existing risk management processes and how management identifies, assesses and manages the Company's most significant risk exposures. Our Board expects frequent updates from management about the Company's most significant risks so as to enable it to evaluate whether management is responding appropriately.

Our Board relies on each of its committees to help oversee the risk management responsibilities relating to the functions performed by such committees. Our audit committee periodically discusses with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. Our compensation committee helps the Board to identify the Company's exposure to any risks potentially created by our compensation programs and practices. Our

nominating and corporate governance committee oversees risks relating to the Company's corporate compliance programs and assists the Board and management in promoting an organizational culture that encourages commitment to ethical conduct and a commitment to compliance with the law. Each of these committees is required to make regular reports of its actions and any recommendations to the Board, including recommendations to assist the Board with its overall risk oversight function.

## **Table of Contents**

Our Board of Directors believes that the processes it has established to administer the Board's risk oversight function would be effective under a variety of leadership frameworks and therefore do not have a material effect on our leadership structure described under "Board Leadership Structure" above.

## **Meetings and Attendance**

During the year ended December 31, 2015, our Board of Directors met seven times. Each member of the Board attended at least 75 percent of the aggregate of all meetings of our Board and meetings of any of our Board committees on which he served during the period that he served in fiscal 2015. In addition, the Independent Directors meet in executive sessions at which only Independent Directors are present in conjunction with each regularly scheduled meeting of the Board of Directors.

Although we do not have a formal policy regarding attendance by members of our Board of Directors at our annual meeting of stockholders, we encourage our directors to attend. All incumbent directors attended the 2015 annual meeting of stockholders.

## **Committees of the Board of Directors**

Our Board of Directors has an audit committee, a compensation committee and a nominating and corporate governance committee. Each such committee has a written charter, a copy of which is posted on our web site at [www.caretrustreit.com](http://www.caretrustreit.com) under the Investors' Corporate Governance section. The Board of Directors and each of its committees may meet, at times, without management present.

*Compensation Committee.* Our compensation committee currently consists of Messrs. Barbieri, Kline and Lindahl. Mr. Lindahl serves as chairman of the compensation committee. All members of the compensation committee meet the independence requirements set forth by the NASDAQ listing standards. Each member of the compensation committee is a non-employee director (within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and an outside director (within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended). Our compensation committee held three meetings in 2015. The primary functions of this committee include, among other things, to:

review executive compensation plans in light of the Company's goals and objectives with respect to such plans, and adopt new, or amend existing, executive compensation plans as appropriate;

evaluate the performance of our Chief Executive Officer and other executive officers;

review and approve the compensation of our executive officers, including salary and bonus awards;

review and make recommendations to the Board regarding compensation to directors for service on the Board and its committees;

establish overall employee compensation policies and recommend to our Board of Directors major compensation programs;

administer our various employee benefit and equity incentive programs;

to the extent required pursuant to SEC rules, review and discuss with management our compensation discussion and analysis (the CD&A ) and recommend to the Board that the CD&A be included in the annual proxy statement or annual report, as applicable; and

prepare an annual report on executive compensation for inclusion in our proxy statement.

The compensation committee may delegate any or all of its responsibilities to a subcommittee consisting of at least two members to the extent consistent with the Company's Charter and Bylaws, applicable law and the rules and regulations of NASDAQ. The compensation committee has no current intention to delegate any of its other responsibilities to a subcommittee. The compensation committee may confer with the Board in determining

**Table of Contents**

the compensation for the Chief Executive Officer. In determining compensation for executive officers other than the Chief Executive Officer, the compensation committee considers, among other things, the recommendations of the Chief Executive Officer.

Pursuant to its charter, the compensation committee is authorized to retain or obtain the advice of compensation consultants, outside counsel, experts or other advisors to advise the compensation committee with respect to amounts or forms of executive and director compensation or in carrying out its other responsibilities. In fiscal 2015, the compensation committee retained Christensen Advisors as its compensation consultant to evaluate the existing executive and non-employee director compensation programs and make recommendations for how to structure our compensation plans to provide a competitive compensation opportunity that will align the interests of employees, the Company and our stockholders. The compensation committee is directly responsible for the appointment, compensation and oversight of Christensen Advisor s work, and does not believe Christensen Advisor s work has raised any conflict of interest.

*Audit Committee.* Our audit committee currently consists of Messrs. Barbieri, Kline and Sabin. Mr. Kline serves as chairman of the audit committee. All members of the audit committee meet the independence requirements set forth by the SEC and the NASDAQ listing standards. Our audit committee held four meetings in 2015. Each member of our audit committee is financially literate in accordance with the NASDAQ listing standards. Our Board of Directors has determined that each of Messrs. Kline and Sabin qualifies as an audit committee financial expert as that term is defined in the rules and regulations established by the SEC. This designation is a disclosure requirement of the SEC related to the experience and understanding of each of Messrs. Kline and Sabin with respect to certain accounting and auditing matters. The designation does not impose on Messrs. Kline or Sabin any duties, obligations or liability that are greater than those generally imposed as a member of our audit committee and our Board of Directors, and such designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of our audit committee or Board of Directors. The primary functions of this committee include, among other things, to:

be responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm;

review and approve in advance all permitted non-audit engagements and relationships between us and our independent registered public accounting firm;

evaluate our independent registered public accounting firm s qualifications, independence and performance;

review and discuss with our independent registered public accounting firm their audit plan, including the timing and scope of audit activities;

review our consolidated and combined financial statements;

review our critical accounting policies and practices;

review the adequacy and effectiveness of our accounting and internal control policies and procedures;

review with our management all significant deficiencies and material weaknesses in the design and operation of our internal controls;

review with our management any fraud that involves management or other employees who have a significant role in our internal controls over financial reporting;

establish procedures for the receipt, retention and treatment of complaints regarding internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

review on an ongoing basis and approve or disapprove related party transactions;

prepare the audit committee report required by the rules of the SEC to be included in our annual proxy statement; and



## **Table of Contents**

discuss with our management and our independent registered public accounting firm the results of our annual audit and the review of our quarterly consolidated and combined financial statements. Representatives of our independent registered public accounting firm and our internal financial personnel regularly meet privately with and have unrestricted access to the audit committee.

*Nominating and Corporate Governance Committee.* Our nominating and corporate governance committee currently consists of Messrs. Barbieri, Kline, Lindahl and Sabin. Mr. Sabin serves as the chairman of the nominating and corporate governance committee. Our nominating and corporate governance committee held two meetings in 2015. The primary responsibilities of the nominating and corporate governance committee are to, among other things:

assist in identifying, recruiting and, if appropriate, interviewing candidates qualified to become members of our Board of Directors, consistent with criteria approved by our Board of Directors and the nominating and corporate governance committee;

recommend to our Board of Directors individuals qualified to serve as directors and on committees of our Board of Directors;

advise our Board of Directors with respect to board composition, procedures and committees;

recommend to our Board of Directors certain corporate governance matters and practices; and

conduct an annual self-evaluation of our Board of Directors.

### **The Company's Director Nomination Process**

As indicated above, our nominating and corporate governance committee oversees the director nomination process. This committee is responsible for assisting the Board of Directors in establishing minimum qualifications for director nominees, including the qualities and skills that members of our Board of Directors are expected to possess. Under our nominating and corporate governance committee charter, which is available at our website at [www.caretrustreit.com](http://www.caretrustreit.com), these criteria include the candidate's knowledge, experience, skills, expertise and diversity. Our nominating and corporate governance committee identifies and evaluates individuals qualified to become members of our Board of Directors. Our nominating and corporate governance committee then recommends that our Board of Directors select the director nominees for the election at the next annual meeting of stockholders, or to fill vacancies on our Board of Directors occurring between annual meetings of our stockholders.

Although we do not have a formal diversity policy, we believe it is important to have an appropriate mix of diversity for the optimal functionality of the Board of Directors. Our nominating and corporate governance committee charter requires that the governance committee consider each candidate's qualities skills and our nominating and corporate governance committee considers each candidate's background, diversity, ability, judgment, skills and experience in the context of the needs and current make-up of the Board of Directors when evaluating director nominees. The Board of Directors believes it is important for each member of the Board of Directors to possess skills and knowledge in the areas of leadership of large, complex organizations, finance, strategic planning, legal, government relations and relevant industries, especially the healthcare and real estate industries. These considerations help the Board of

Directors as a whole to have the appropriate mix of skills and experiences for the optimal functioning of the Board of Directors in its oversight of our Company. As part of its periodic self-assessment process, the nominating and corporate governance committee annually reviews and evaluates its performance, including overall composition of the Board of Directors and the criteria that it uses for selecting nominees in light of the specific skills and characteristics necessary for the optimal functioning of the Board of Directors in its oversight of our Company.

The nominating and corporate governance committee will consider candidates for election or appointment to the Board recommended by stockholders. If a stockholder wishes to recommend a director candidate, he or she should submit such recommendation in writing to the Chair, Nominating and Corporate Governance Committee,

## **Table of Contents**

care of the Secretary of the Company, together with information about the stockholder and the candidate otherwise required for director nominations by a stockholder pursuant to Section 11 of Article II of our Bylaws, a copy of which will be made available upon request. The nominating and corporate governance committee may request additional information concerning the director candidate as it deems reasonably required to determine the eligibility and qualification of the director candidate to serve as a member of the Board of Directors. Stockholders recommending candidates for consideration by our Board of Directors in connection with the next annual meeting of stockholders should submit their written recommendation no later than January 1 of the year of that meeting. All recommendations will be brought to the attention of the nominating and corporate governance committee, and the nominating and corporate governance committee shall evaluate such director nominees in accordance with the same criteria applicable to the evaluation of all director nominees.

Stockholders who wish to nominate a person for election as a director in connection with an annual meeting of stockholders (as opposed to making a recommendation to the nominating and corporate governance committee as described above) must deliver written notice to our Secretary in the manner described in Section 11 of Article II of our Bylaws and within the time periods set forth at the end of this Proxy Statement under the section **Stockholder Proposals and Director Nominations for 2017 Annual Meeting of Stockholders**.

## **Communications with Directors**

Stockholders who would like to send communications to our Board may do so by submitting such communications to our Secretary at CareTrust REIT, Inc., 905 Calle Amanecer, Suite 300, San Clemente, California 92673. Stockholders may also communicate with our Board of Directors as a group using the form available on our website at [www.caretrustreit.com](http://www.caretrustreit.com) under **Contact the Board** in the **Investors Corporate Governance** section. We suggest, but do not require, that such submissions include the name and contact information of the stockholder making the submission and a description of the matter that is the subject of the communication. Communications are distributed to the Board, or to any individual directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, our Board of Directors requests that certain items which are unrelated to the duties and responsibilities of the Board be excluded. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any non-management director upon request.

## **Code of Business Conduct and Ethics**

We have adopted a code of business conduct and ethics that applies to all employees, including employees of our subsidiaries, as well as each member of our Board of Directors. The code of business conduct and ethics is available at our website at [www.caretrustreit.com](http://www.caretrustreit.com) under the **Investors Corporate Governance** section. We intend to satisfy any disclosure under applicable rules of the SEC or NASDAQ regarding an amendment to, or waiver from, a provision of this code of business conduct and ethics by posting such information on our website, at the address specified above.

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**Table of Contents**

**PROPOSAL 2: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We are asking the stockholders to ratify our audit committee's selection of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2016. We are not required to submit the appointment of E&Y as our independent registered public accounting firm for stockholder approval. However, we are submitting the appointment for ratification as a matter of good corporate practice. If stockholders fail to ratify the appointment, the audit committee will consider whether or not to retain E&Y. Even if the appointment is ratified, the audit committee may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

A representative of E&Y will be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

**Changes in Independent Registered Public Accounting Firm**

E&Y was our independent registered public accounting firm for fiscal year 2015 and we first engaged E&Y as our independent registered public accounting firm on June 20, 2014.

Deloitte & Touche LLP (Deloitte) was the independent registered public accounting firm of Ensign Properties, our predecessor. Ensign Properties refers to the carve-out business of (i) the entities that own the skilled nursing, assisted living and independent living facilities that the Company owns following its Spin-Off (as defined below) from Ensign and (ii) the operations of the three independent living facilities that the Company operates following the Spin-Off. On June 20, 2014, our audit committee approved the dismissal of Deloitte as our independent registered public accounting firm. Deloitte's engagement as our independent registered public accounting firm with respect to the audit of our combined financial statements as of and for the year ended December 31, 2013 ended effective immediately upon the Company's filing of its Form 8-K with the SEC on June 26, 2014.

The reports of Deloitte on the financial statements of the Company and Ensign Properties as of and for the fiscal years ended December 31, 2013 and 2012 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2013 and 2012, and during the subsequent interim period from January 1, 2014 through June 20, 2014, the date of Deloitte's dismissal, (1) there were no disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure that, if not resolved to Deloitte's satisfaction, would have caused Deloitte to make reference to the subject matter of the disagreements in connection with its reports on the financial statements of the Company or Ensign Properties for such periods and (2) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During the fiscal years ended December 31, 2013 and 2012, and during the subsequent interim period from January 1, 2014 through June 20, 2014, neither we nor anyone on our behalf consulted with E&Y regarding either (1) the application of accounting principles to a specified transaction, whether completed or proposed, or the type of audit opinion that might be rendered on the financial statements of the Company or Ensign Properties, and no written report or oral advice was provided to us that E&Y concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue or (2) any matter that was the subject of a disagreement or reportable event as defined in Regulation S-K, Item 304(a)(1)(iv) and Item 304(a)(1)(v), respectively.



**Table of Contents**

In accordance with Item 304(a)(3) of Regulation S-K, we previously provided Deloitte with a copy of the above disclosures and requested that Deloitte furnish us with a letter addressed to the SEC stating whether or not it agreed with the statements made above. A copy of such letter is filed as Exhibit 16.1 to our Current Report on Form 8-K filed with the SEC on June 26, 2014.

**Principal Accountant Fees and Services**

The following table presents fees for professional services rendered by E&Y and Deloitte for the years ended December 31, 2015 and December 31, 2014, respectively:

	<b>E&amp;Y 2015</b>	<b>E&amp;Y 2014</b>	<b>Deloitte 2014</b>
Audit Fees <sup>(1)</sup>	\$ 551,535	\$ 339,902	\$ 469,776
Audit Related Fees <sup>(2)</sup>			469,882
Tax Fees	123,377		
All Other Fees <sup>(3)</sup>	1,995	1,995	
<b>Total</b>	<b>\$ 676,907</b>	<b>\$ 341,897</b>	<b>\$ 939,658</b>

- (1) Audit Fees consist principally of fees for the audit of our financial statements and review of our financial statements included in our Quarterly Reports on Form 10-Q, fees incurred in connection with the preparation of, and securities offerings pursuant to, registration statements filed with the SEC and accounting consultations. Audit fees for services rendered by Deloitte were incurred prior to the completion of the Spin-Off and were paid by Ensign.
- (2) Audit Related Fees consist of fees for services rendered by Deloitte in connection with the preparation of our Form 10 registration statement, which were incurred prior to the completion of the Spin-Off and paid by Ensign.
- (3) This amount represents subscription fees paid to E&Y for use of an accounting research tool during the year ended December 31, 2014.

**Pre-Approval Policies**

The audit committee has adopted a policy that requires the audit committee to pre-approve all audit and permitted non-audit services provided by our independent registered public accounting firm. The audit committee has delegated to the chairperson of the audit committee the authority to pre-approve any audit and permitted non-audit services necessary between regularly scheduled meetings of the audit committee and the chairperson must then report any such approval decisions to the full audit committee at its next scheduled meeting. Our audit committee pre-approved all audit, audit-related, tax and other services performed by our independent registered public accounting firm in fiscal 2015 and in fiscal 2014 following the Spin-Off.

**Recommendation of the Board of Directors**

Our Board of Directors unanimously recommends that the stockholders vote **FOR** the ratification of the selection of E&Y as the Company's independent registered public accounting firm for the year ending December 31, 2016. Unless otherwise instructed, the proxy holders will vote the proxies received by them **FOR** ratification of the selection of E&Y as the Company's independent registered public accounting firm for the year ending December 31, 2016.



**Table of Contents**

**AUDIT COMMITTEE REPORT**

Our audit committee has reviewed and discussed with our management our audited consolidated and combined financial statements and the establishment and maintenance of internal control over financial reporting and has discussed with E&Y, our independent registered public accounting firm, the matters required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*.

Our audit committee has received and reviewed the written disclosures and the letter from E&Y required by applicable requirements of the Public Company Accounting Oversight Board regarding E&Y's communications with the audit committee concerning independence. Our audit committee has also considered whether the provision of non-audit services provided to us by E&Y is compatible with maintaining E&Y's independence and has discussed with E&Y its independence.

Based on the review and discussions referred to above, our audit committee recommended to our Board of Directors that the audited financial statements for the Company's year ended December 31, 2015 be included in our Annual Report for the year ended December 31, 2015, which was filed with the SEC on February 11, 2016. The audit committee also appointed E&Y to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2016 and is seeking ratification of such selection by the stockholders.

Submitted by:

Jon D. Kline (Chair)

Allen C. Barbieri

Gary B. Sabin

Members of the Audit Committee

*The foregoing report of the audit committee does not constitute soliciting material and shall not be deemed filed, incorporated by reference into or a part of any other filing by us (including any future filings) under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent we specifically incorporate such report by reference therein.*



**Table of Contents****EXECUTIVE OFFICERS**

The following table presents information regarding our current executive officers. The information is current as of April 14, 2016:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Gregory K. Stapley	56	Chairman, President and Chief Executive Officer
William M. Wagner	50	Chief Financial Officer, Treasurer and Secretary
David M. Sedgwick	40	Vice President of Operations

Information on the business background of Gregory K. Stapley is set forth above under Proposal 1 Directors and Director Nominees.

*William M. Wagner* has served as our Chief Financial Officer, Treasurer and Secretary since December 2013 and also serves as our principal accounting officer. Mr. Wagner served as Chief Financial Officer of First Team Real Estate, a private real estate brokerage company, from 2012 to 2013. From 2008 to 2012, Mr. Wagner served as Senior Vice President and Chief Accounting Officer of Nationwide Health Properties, Inc., a healthcare REIT. From 2004 to 2008, Mr. Wagner served as Senior Vice President and Chief Accounting Officer of Sunstone Hotel Investors, Inc., a lodging REIT. From 2001 to 2004, Mr. Wagner served as Vice President, Financial Reporting of The TriZetto Group, Inc. From 1999 to 2001, Mr. Wagner worked for two internet start-up ventures. From 1997 to 1999, Mr. Wagner served as Director, Financial Reporting of Irvine Apartment Communities, Inc., a multifamily REIT. From 1990 to 1997, Mr. Wagner worked for EY Kenneth Leventhal Real Estate Group and served real estate clients including several REITs. Mr. Wagner received a B.A. degree in Business Administration from the University of Washington and is a Certified Public Accountant (inactive) in the State of California.

*David M. Sedgwick*. Mr. Sedgwick has served as our Vice President of Operations since May 2014. He is a licensed nursing home administrator and, prior to joining CareTrust, served in several key leadership roles at Ensign since 2001. During 2013, he operated Ensign's newly-built Medicare-only skilled nursing facility (SNF) in Denver, Colorado, and simultaneously supported all of Ensign's skilled nursing operations in Colorado. During 2012, he served as President of Ensign's Maryland-based urgent care franchise venture, Doctors Express. From 2007 to 2012, Mr. Sedgwick served as Ensign's Chief Human Capital Officer, with responsibility for recruiting and training more than 100 licensed nursing home administrators and directing Ensign University, which included Ensign's administrator training program. From 2002 to 2007, he operated three Ensign SNFs in two states. Mr. Sedgwick holds a B.S. in Accounting from Brigham Young University and an M.B.A. from the University of Southern California. Mr. Sedgwick is Mr. Stapley's brother-in-law.

**Table of Contents**

**EXECUTIVE COMPENSATION**

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act enacted in April 2012. As an emerging growth company, we are providing compensation information pursuant to the reduced disclosure obligations applicable to emerging growth companies, and are relying on exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

**Named Executive Officers**

Our named executive officers for our 2015 fiscal year, who consist of our principal executive officer and the two other most highly compensated executive officers, are:

Gregory K. Stapley, Chief Executive Officer;

William M. Wagner, Chief Financial Officer; and

David M. Sedgwick, Vice President, Operations.

**Introduction**

Prior to June 1, 2014, the Company was a wholly-owned subsidiary of Ensign. On June 1, 2014, Ensign completed the separation of its healthcare business and its real estate business into two separate and independent publicly traded companies through the distribution of all of the outstanding shares of Common Stock of CareTrust to Ensign stockholders on a pro rata basis (the Spin-Off). Effective with the Spin-Off, our named executive officers that held management positions at Ensign or its subsidiaries resigned from such positions and have since been solely employed by the Company. After the Spin-Off, the Company began trading on the NASDAQ Global Select Market under the symbol CTRE as an independent public company. Prior to the Spin-Off, the cash compensation of our named executive officers was determined by Ensign's executive management or its board of directors and the equity compensation of our named executive officers was determined by Ensign's compensation committee at the recommendation of Ensign's executive management.

**2015 Summary Compensation Table**

The following table sets forth certain information with respect to compensation for the year ended December 31, 2015, or such shorter period as indicated in the footnotes below, earned by, awarded to or paid to our named executive officers.

Private Investor (Sazer)

NA

\$

5,585/NA

12/19/2013

22,109,375 shares of common stock issued upon conversion of \$35,000 of the principal amount of a convertible note and legal fees of \$375.

Private Investor (Southridge).

NA

\$

35,375/NA

## **Item 6. Selected Financial Data.**

Disclosure under Item 6 is not required of smaller reporting companies.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Overview and Recent Developments**

We have developed a patent pending PureSafe First Response Water System ( PureSafe FRWS ) that is self-contained and purifies essentially any type of raw water source or decontaminate any contaminated water without prior knowledge of the contaminants, including seawater that may be found at a first response emergency site. This system is uniquely mobile, by helicopter or transported by truck. The initial PureSafe FRWS prototype was developed using advanced Israeli water treatment technology. The original prototype was capable of producing 10,000 gallons of water per day, but could not desalinate sea water, and did not have a built in generator or water bagging capability. Adhering

to the original treatment train and process, we have since built a 2nd prototype (FRWS unit). The FRWS unit can produce EPA compliant drinking water at the rate of 30,000 gallons per day, to provide drinking water to 45,000 people. This system has received Gold Seal Certification from the Water Quality Association in September 2010, was re-certified in April 2011 and January 2013, a significant accomplishment. In addition, the Nassau County Department of Health independently tested the PureSafe unit's water quality and the results exceeded all testing parameters. The FRWS-30K unit was designed to meet the output, ease of operation, mobility and water quality requirements as described in the Operational Requirements Document issued by the U.S Department of Homeland Security (2009) for emergency water supplies.

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

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

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

### **Plan of Operations**

Our plans for the next twelve months include:

In June 2014 we retained Tarpon Bay Partners LLC, a company that is part of the Southridge LLC group, as the Company's strategic financial advisor to provide general management and consulting services and advisory services to the Company, including assistance in connection with the restructuring of our outstanding debt and equity securities.

Our marketing plan is based on the following key components:

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

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

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

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

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

### **Results of Operations for the years ended December 31, 2013 and 2012**

**Revenues.** We recognized \$0 revenues for the year ended December 31, 2013 as compared with \$495,000 for the year ended December 31, 2012.

**Cost of goods sold** for the year ended December 31, 2013 was \$56,344 as compared with \$669,535 for the year ended December 31, 2012. During the year ended December 31, 2013 inventory in the amount of \$56,344 was abandoned.

**Operating expenses** for the year ended December 31, 2013 were \$2,558,393 compared to \$2,442,130 for the year ended December 31, 2012, a \$116,263 or 5% increase.

The following is an analysis of operating expense fluctuations between 2013 and 2012.

**Compensation and related benefits expenses, including directors fees** for the year ended December 31, 2013 was \$1,161,739 compared to \$1,232,140 for the year ended December 31, 2012, a \$70,401 or 6% decrease

Directors fees increased \$31,200 from \$108,000 for the year ended December 31, 2012 to \$139,200 for the year ended December 31, 2013. The \$31,200 or 29% increase for the directors fees is the result of the market price fluctuation between the fair value of the market price on the date of warrant issuance and the warrant exercise.



Salaries expenses, excluding Stock-based compensation, decreased from \$742,702 for the year ended December 31, 2012 to \$640,711 for the year ended December 31, 2013. The decrease was a result of the following approximate decreases; officer s salaries decreased \$66,000, office and administrative salaries decreased \$24,000 and deferred compensation decreased \$60,000.

Stock Based Compensation, excluding directors fees, consulting fees and marketing expense, decreased \$2,200 from \$341,700 for the year ended December 31, 2012 to \$339,500 for the year ended December 31, 2013. We issued 27,000,000 shares of common stock to our employees and contractors during the year ended December 31, 2013 and recorded \$171,300 stock-based compensation for such issuance. This is in comparison to 2,300,000 shares of common stock issued and \$149,500 of stock-based compensation recorded in the year ended December 31, 2012, an increase of 24,700,000 shares and \$21,800. In addition, on February 11, 2013, the Compensation Committee granted our Chief Executive Officer and Chief Financial Officer a total of 25,000,000 warrants to purchase 25,000,000 shares of common stock at an exercise price of \$0.0033 per share. We recorded \$152,000 of stock-based compensation during 2013 in connection with such grant. On October 25, 2012, the Compensation Committee granted our Chief Executive Officer and Chief Financial Officer a total of 30,000,000 warrants to purchase 30,000,000 shares of common stock at an exercise price of \$0.006 per share. We recorded \$145,800 of stock-based compensation during 2012 in connection with such grant.

**Insurance & medical benefits expense** for the year ended December 31, 2013 was \$82,553, compared to \$83,557 for the year ended December 31, 2012, a \$1,004 or 1% decrease. The decrease in total insurance premium is the net result of the reduction in our workers compensation insurance premium due to the reduction of production staff in 2013 and the increase the general liability premium in the same period.

**Research and development expenses** for the year ended December 31, 2013 were \$55,874 compared to expenses during the year ended December 31, 2012 of \$62,032, a \$6,158 or 10% decrease. In the past two years, due to cash restrictions, we have curtailed the expenses on research and development and have focused our resources on production. However, we understand the vital importance of research and development for our overall success. We are committed to continue to conduct research and development activities to ensure PureSafe FRWS has the most advanced technology within the water filtration equipment industry.

**Professional, legal and consulting fees expenses** for the year ended December 31, 2013 were \$394,209, compared to \$212,145 for the year ended December 31, 2012, a \$182,064 or 86% increase. The main reason for the \$182,064 increase is that, during the year ended December 31, 2013, we recorded \$257,000 of stock-based consulting fees represented by 74,509,222 shares of our common stock being issued to two consultants and one investment banker for services we received. During the year ended December 31, 2012, we only issued 186,538 shares of common stock representing \$10,900 of stock-based consulting fees. During 2012, we received a one-time adjustment bill from our auditor resulting in a higher than normal professional, legal and consulting fees for the year 2012 compared to 2013 which incurred no such adjustment.



**Marketing expenses**, including stock-based compensation, decreased \$187,718 from \$213,553 for the year ended December 31, 2012 to \$25,835 for the year ended December 31, 2013. The primary reason for the decrease was we made a non-recurring adjustment to accrue \$169,444 in marketing consulting fees that we owed to a consultant in the 3<sup>rd</sup> quarter of 2012.

**Occupancy** related expenses increased \$212,906 from \$263,116 for the year ended December 31, 2012 to \$476,022 for the year ended December 31, 2013. A main factor for the \$212,906 increase in occupancy related expenses was due to a charge of \$229,234 recorded during the year ended December 31, 2013 related to the Fairchild litigation. The increase in occupancy related expenses in 2013 compared to the same period in 2012 was offset by small decreases in many different areas, such as reductions in cleaning services and repairs and maintenance. In addition in October 2013, the Company was evicted from its Dupont Street facilities and moved to a location with a lower monthly rental amount.

**Loss on sale/abandonment of fixed assets** - During the year ended December 31, 2013 we incurred a loss of \$21,720 on the abandonment of fixed assets. In the 3<sup>rd</sup> quarter of 2013, after the Company moved to a new location, the Company decided to write-off all fixed assets that were associated with prior locations. During 2013 we sold our Ford truck and certain equipment and realized a \$9,486 gain after writing-off the balance of the assets. In March 2012, we moved our headquarters to our 160 Dupont Street facility. As a result, we wrote-off \$34,709 of leasehold improvements during the year ended December 31, 2012.

**Other administrative and general expenses** increased \$9,049 from \$340,878 for the year ended December 31, 2012 to \$349,927 for the year ended December 31, 2013. A main factor in the increase in other administrative and general expenses was an increase in litigation related settlement charges of \$161,613 during 2013 partially offset by a decrease in production related expenses and other expense not included in the above discussion. During the year ended December 31, 2012, we incurred \$68,667 in expenses on production related activities which we did not incur any for the year ended December 31, 2013.

## Other Income (Expenses)-net

We incurred \$(622,309) in net non-operating expenses for the year ended December 31, 2013, compared to \$(142,920) for the year ended December 31, 2012, a \$479,389 or 335% increase.

The following is a detailed analysis for such increase:

Interest expense - non-debt discount related incurred during the years ended December 31, 2013 and 2012 was \$830,142 and \$365,528, respectively, a \$464,614 or 127% increase.

The following factors primarily impacted interest expense - non-debt discount for the year ended December 31, 2013: i) During the year ended December 31, 2013, we incurred approximately \$125,000 in interest expense as the result of failing to issue conversion shares in a timely manner that was dictated by the terms of outstanding notes; ii) During the year ended December 31, 2013, we incurred approximately \$228,000 in penalty interest expense as the result of defaulting on our loan with TCA; and iii) During the year ended December 31, 2013, we incurred approximately \$245,000 in interest expense as the result of the fair value, on the date of issuance, of the conversion features and warrants issued with certain debt in excess of the face value of the debt.

The following factors primarily impacted interest expense - non-debt discount for the year ended December 31, 2012: i) In the third quarter of 2012, we made two one-time entries; ii) On July 3, 2012, a customer requested to convert \$130,000 customer deposit into common stock. Based on the terms of the original sales/rental agreement, upon the issuance of 4,187,500 shares of common stock, we recorded \$37,500 of interest expense to fulfill the Company's obligation; iii) In September, 2012, the Company recorded \$85,000 of interest expense resulted from an agreement the Company entered into with a lender to amend certain convertible notes issued by the Company to the lender, dated as of March 27, 2012 and April 25, 2012 in the aggregate principal amount of \$100,000. The lender agreed to forgo the right to convert those notes into common stock and in exchange, the Company agreed to add an additional \$85,000 to the original principal amount of \$100,000 of the note. iiiii) During the year ended December 31, 2012, we incurred approximately \$10,000 in interest expense as the result of failing to issue conversion shares in a timely manner that was dictated by the terms of outstanding notes.

Interest expense - debt discount incurred during the years ended December 31, 2013 and 2012 was \$223,825 and \$796,040, respectively, a \$572,215 or 72% decrease. The main reason for the decrease in debt-discount related interest expense is that we fully amortized the debt discount of most of our loans that we entered in 2011 and 2012, and we entered into fewer loan agreements during the year ended December 31, 2013 compared to the year ended December 31, 2012.

Changes in fair value of warrants and embedded conversion options for years ended December 31, 2013 and 2012 were \$393,000 and \$998,300, respectively.

The change in fair value of warrants and embedded conversion options for any period is always primarily the result of the following factors. The first factor is the fair value we recorded as the result of new issuances of warrants and the embedded conversion value. The second factor is the reduction of outstanding options or warrants at the end of each period due to warrant/options exercise or warrants/options expired during the same period. The third factor is the fluctuation of the Company's stock price.

### **Liquidity and Capital Resources**

As of December 31, 2013, we maintained a cash balance of \$2,199 as compared to \$63,571 as of December 31, 2012.

Net cash used in operating activities during the year ended December 31, 2013 was \$1,037,031, compared to \$974,403 used during the year ended December 31, 2012, a \$62,628 or 6% increase. The Company expects cash from operations to remain negative until we start to generate adequate revenues.

Net cash provided in investing activities for the years ended December 31, 2013 and 2012 was \$14,742 and \$0, respectively. We sold our Ford truck and certain equipment during the year ended December 31, 2013 and received cash proceeds of \$22,200 cash. During the year ended December 31, 2013 we paid \$7,458 for patent costs.

During the years ended December 31, 2013 and 2012, respectively, we received \$635,314 and \$412,270 through sales of our common stock and warrant exercises. We received \$38,423 from two investors to exercise their warrants to purchase 3,483,567 shares of common stock at exercise prices between \$0.0096 and \$0.0144. As of December 31, 2013, we have not issued the shares in connections with such warrant exercises.

Funds received from officers and directors loans and convertible loans during the year ended December 31, 2013 and 2012 were \$9,051 and \$105,000, respectively; cash received from issuing convertible promissory notes was \$376,500 and \$768,500, respectively; and cash received from issuing promissory notes was \$12,500 and \$75,000, respectively. We paid \$0 and \$130,024 in financing costs associated with loans entered into during the years ended December 31, 2013 and 2012, respectively; cash used to repay convertible notes payable was \$32,500 and \$0, respectively; cash used to repay officers and directors notes was \$48,500 and \$104,000, respectively; and cash used to repay notes payable was \$29,871 and \$207,000, respectively.

From the above activities, net cash provided by financing activities during the years ended December 31, 2013 and 2012 was \$960,917 and \$919,746, respectively.

Aggregating operating, investing and financing activities from above, net cash used for the years ended December 31, 2013 and 2012 was \$61,372 and \$54,657, respectively.

### **Going Concern**

At December 31, 2013, we had a working capital deficit of approximately \$5.6 million. We continue to suffer recurring losses from operations and have an accumulated deficit since inception of approximately \$48.3 million. These conditions raise substantial doubt about our ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to bring the Company's products to market and generate revenues, control costs, and obtain additional financing, as required and on reasonable terms. The Company's plans with respect to these matters include restructuring its existing debt and raising additional financing through issuance of preferred stock, common stock and/or debt. On January 23, 2013, the Company signed an Engineering Package Agreement ( ETG Agreement ) with Engineering Technologies Group, Inc. ( ETG ), Hopkinton, Massachusetts. Under the engineering agreement, ETG will provide detailed electronic engineering drawings and purchase specifications for the Company's water purification and filtration product and to facilitate the outsourcing of the assembly, sub-assembly and manufacturing. On January 25, 2013, the Company entered into an Exclusive Sales and Marketing Agreement (the Distribution Agreement ) with Global Equipment Marketing, Inc. ( GEM ), Hopkinton, Massachusetts, a distribution and marketing company. Under the Distribution Agreement, on an exclusive basis, GEM is responsible for promoting and selling the Company's products at their cost and expense. In exchange, GEM will receive a discount from the list prices of PureSafe products in connection with sales to its dealers, distributors, representatives and resellers. The Company remains responsible for the design and manufacturing of the products. The Company has been evicted from its facilities at 160 Dupont Street, Plainview, NY 11803. The Company plans to outsource production of the product in the future. Any remaining inventory was moved to ETG's facilities in Hopkinton, Mass.

Effective March 7, 2014, Theresa Bischoff and Dr. Stephen E. Flynn resigned as a directors of the Company for personal reasons, and on April 2, 2014, the Board of Directors elected Stephen M. Hicks as a director, to fill a vacancy on the Board, and as President of the Company. Mr. Hicks is the Chief Executive Officer of Southridge LLC ( Southridge ), which has financed the Company in the past and continues to own debt and equity securities of the Company. Our Board also on the same date elected Gilbert Steedley as a director of the Company, to fill a vacancy on the Board of Directors, and elected Henry Sargent as Vice President and Secretary of the Company. Mr. Sargent is the Chief Operating Officer and General Counsel of Southridge.

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

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

Subsequent to December 31, 2013, the Company has issued approximately \$190,000 of notes payable and approximately \$301,000 of convertible notes payable. From January 1, 2014 until October 23, 2014, the Company issued 414,812,709 shares of common stock for the settlement of \$219,620 loan principal plus \$24,850 accrued interest and fees.

## Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of the statements in accordance with these principles requires that we make estimates, using available data and our judgment, for such things as valuing assets, accruing liabilities and estimating expenses. We are considered a development stage enterprise as defined in the Accounting standards Codification 915 Development Stage Entities. We are subject to a number of risks similar to those of other companies in an early stage of development.

The following is a list of what we believe are the most critical estimations that we make when preparing our financial statements.

### *Stock-Based Compensation*

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

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

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

The principal assumptions used in applying the Black-Scholes model along with the results from the model were as follows:

	<b>Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Risk-free interest rate	0.3-1.6%	0.36%

Expected life, in years	3 to 5 years	3 years
Expected volatility	125% to 175%	117%
Dividends	0%	0%

We have issued equity instruments in the past to raise capital and as a means of compensation to employees and for the settlement of debt.

### *Derivative Financial Instruments*

In connection with the issuance of certain convertible promissory notes, the terms of the convertible notes included an embedded conversion feature which provided for a conversion of the convertible promissory notes into shares of our common stock at a rate which was determined to be variable. We determined that the conversion feature was an embedded derivative instrument pursuant to ASC 815 Derivatives and Hedging.

The accounting treatment of derivative financial instruments requires that we record the conversion option and related warrants at their fair values as of the inception date of the convertible debenture agreements and at fair value as of each subsequent balance sheet date. As a result of entering into the convertible promissory notes, we were required to reclassify all other non-employee warrants and options as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. We reassess the classification of the instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

### *Effects of Recent Accounting Policies*

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Under this new guidance, companies must present this unrecognized tax benefit in the financial statements as a reduction to deferred tax assets created by net operating losses or other tax credits from prior periods that occur in the same taxing jurisdiction. If the unrecognized tax benefit exceeds such credits it should be presented in the financial statements as a liability. This update is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.





The U.S. Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08) in April 2014. This new standard raises the threshold for disposals to qualify as discontinued operations, allows companies to have significant continuing involvement and continuing cash flows and provides for new and additional disclosures of discontinued operations and individually material disposal transactions. The Company anticipates adopting the new standard when it becomes effective in the first quarter of 2015. The Company does not expect the adoption of ASU 2014-08 to have a material effect on its consolidated financial statements.

The FASB has issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending December 31, 2016 and the Company will continue to assess the impact on its consolidated financial statements.

The FASB and the SEC have issued certain other accounting standards updates and regulations that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during 2014 or 2013, and does not believe that any of those pronouncements will have a significant impact on the Company's consolidated financial statements at the time they become effective.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Disclosure under Item 7A is not required of smaller reporting companies.

**Item 8. Financial Statements and Supplementary Data.**

We set forth below a list of our audited financial statements included in this Annual Report on Form 10-K and their location.

<b>Item</b>	<b>Page *</b>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-2
Consolidated Statements of Operations for the Years Ended December 31, 2013 and 2012	F-4
Consolidated Statements of Changes in Stockholders Deficiency for the Years Ended December 31, 2013 and 2012	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2013 and 2012	F-7
Notes to Consolidated Financial Statements	F-9

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

of PureSafe Water Systems, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of PureSafe Water Systems, Inc. and Subsidiary (the Company ) as of December 31, 2013 and 2012 and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PureSafe Water Systems, Inc. and Subsidiary as of December 31, 2013 and 2012 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has had recurring losses, and has a working capital and stockholders' deficiency as of December 31, 2013 and 2012. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

Marcum LLP

New York, New York

October 23, 2014

F-1

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## PureSafe Water Systems, Inc. and Subsidiary

## Consolidated Balance Sheets

	December 31, 2013	December 31, 2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 2,199	\$ 63,571
Inventories	141,636	322,718
Prepaid expenses and other current assets	35,437	54,478
<b>Total Current Assets</b>	<b>179,272</b>	<b>440,767</b>
Property and equipment, net of accumulated depreciation of \$179,290 and \$164,710, respectively	-	49,014
Patents and trademarks, net of accumulated amortization of \$47,919 and \$41,816, respectively	59,422	58,068
Other assets	33,500	28,451
<b>Total Assets</b>	<b>\$ 272,194</b>	<b>\$ 576,300</b>
<b>Liabilities and Stockholders' Deficiency</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,209,319	\$ 695,589
Accrued compensation	1,267,382	972,286
Deferred rent payable	-	7,050
Accrued consulting and director fees	144,000	144,000
Customer deposits	-	149,588
Notes payable to officer and director (including accrued interest of \$193,703 and \$138,132, respectively)	827,254	811,132
Convertible promissory note (including accrued interest of \$154,528 and \$141,564 and net of debt discount of \$210,781 and \$80,606, respectively)	1,238,838	1,111,110
Promissory notes payable (including accrued interest of \$240,807 and \$220,295 respectively)	593,153	706,829
Fair value of detachable warrants and conversion option	299,000	263,300
Accrued dividends payable	190,328	190,328
Common stock to be issued	38,423	-
<b>Total Current Liabilities</b>	<b>5,807,697</b>	<b>5,051,212</b>

<b>Long-Term Liabilities:</b>		
Promissory notes payable, net of current portion	-	8,196
<b>Total Long-Term Liabilities</b>	-	8,196
<b>Total Liabilities</b>	5,807,697	5,059,408
<b>Commitments and Contingencies</b>	-	-

F-2

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**Stockholders' Deficiency:**

Preferred stock par value \$0.001 par value; 10,000,000 shares authorized; 184,144 and 184,195 shares issued and outstanding (liquidation preference \$3,025,450 and \$2,917,150, as of December 31, 2013 and 2012, respectively)	184	184
Common stock par value \$0.001: 2,000,000,000 shares authorized; 934,171,800 shares issued and 934,167,400 shares outstanding at December 31, 2013; 561,343,935 shares issued and 561,339,535 shares outstanding at December 31, 2012	934,171	561,343
Additional paid in capital	41,804,413	40,423,615
Treasury stock, at cost, 4,400 shares of common stock	(5,768)	(5,768)
Subscriptions receivable - (including accrued interest of \$0 and \$93,825 respectively)	-	(431,025)
Accumulated deficit	(48,268,503)	(45,031,457)
<b>Total Stockholders' Deficiency</b>	<b>(5,535,503)</b>	<b>(4,483,108)</b>
<b>Total Liabilities and Stockholders' Deficiency</b>	<b>\$ 272,194</b>	<b>\$ 576,300</b>

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

## PureSafe Water Systems, Inc. and Subsidiary

## Consolidated Statements of Operations

	<b>For the Years Ended</b>	
	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>Sales</b>	\$ -	\$ 495,000
<b>Cost of Sales</b>	56,344	669,535
<b>Gross Profit (Loss)</b>	(56,344)	(174,535)
<b>Operating expenses:</b>		
Compensation and related benefits, including stock-based compensation of \$478,700 and \$449,700 for the years ended December 31, 2013 and 2012, respectively	1,161,739	1,232,140
Insurance and medical benefits	82,553	83,557
Research and development	55,874	62,032
Professional, legal and consulting fees, including stock-based compensation of \$257,000 and \$4,500 for the years ended December 31, 2013 and 2012, respectively	394,209	212,145
Marketing, including stock-based compensation of \$0 and \$13,900 for the years ended December 31, 2013 and 2012, respectively	25,835	213,553
Occupancy	476,022	263,116
Loss on sale/abandonment of fixed assets	12,234	34,709
Other administrative and general	349,927	340,878
<b>Total operating expenses</b>	<b>2,558,393</b>	<b>2,442,130</b>
<b>Loss from operations</b>	<b>(2,614,737)</b>	<b>(2,616,665)</b>
<b>Other income (expense):</b>		
Interest income	15,131	20,349
Other income	23,538	-
Interest expense, including interest to related parties of \$55,571 and \$70,720 for the years ended December 31, 2013 and 2012, respectively	(1,053,978)	(1,161,569)
Change in fair value of derivative liabilities	393,000	998,300



<b>Total Other Income (Expense)</b>		(622,309)		(142,920)
<b>Net Loss</b>		(3,237,046)		(2,759,585)
<b>Dividend on preferred stock</b>		(108,300)		(108,300)
<b>Net Loss Attributable to Common Stockholders</b>	\$	<b>(3,345,346)</b>	\$	<b>(2,867,885)</b>
<b>Net Loss Attributable to Common Stockholders Per Share basic and diluted</b>	\$	(0.00)	\$	(0.01)
<b>Weighted average number of shares outstanding</b>		922,685,840		388,044,980

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

F-4

**PureSafe Water Systems, Inc. and Subsidiary**  
**Consolidated Statement of Stockholders' Deficiency**  
**For the Years Ended December 31, 2013 and 2012**

	Preferred Stock		Common Stock		Additional Treasury		Subscription Receivable	Accumulated Deficit	Total Stockholders' Deficiency
	Amount		Amount		Paid-In Capital	Stock at Cost			
	Shares	(\$)	Shares	(\$)	(\$)	(\$)	(\$)	(\$)	
Balance, December 31, 2011	184,144	184	340,389,004	340,387	38,667,449	(5,768)	(410,738)	(42,271,872)	(3,680,358)
Sale of common stock for cash	-	-	51,227,383	51,227	361,043	-	-	-	412,270
Common stock issued for loan conversion	-	-	158,491,010	158,491	693,061	-	-	-	851,552
Common stock issued for services	-	-	2,674,038	2,675	165,225	-	-	-	167,900
Common stock issued in connection with debt	-	-	4,375,000	4,375	170,625	-	-	-	175,000
Common stock issued for settlement of customer deposits (includes \$37,500 of stock based compensation)	-	-	4,187,500	4,188	163,312	-	-	-	167,500
Issuance of Series B Preferred Stock	51	-	-	-	51	-	-	-	-

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Reclassification of derivative liability	-	-	-	-	(80,100)	-	-	-	(80,100)
Warrants granted for services	-	-	-	-	283,000	-	-	-	283,000
Accrued interest	-	-	-	-	-	-	(20,287)	-	(20,287)
Net loss	-	-	-	-	-	-	-	(2,759,585)	(2,759,585)
Balance, December 31, 2012	184,195	184	561,343,935	561,343	40,423,615	(5,768)	(431,025)	(45,031,457)	(4,483,108)
Sale of common stock for cash	-	-	106,066,743	106,067	464,733	-	-	-	570,800
Common stock issued for warrant exercise	-	-	11,609,661	11,610	52,904	-	-	-	64,514
Common stock issued for settlement of notes payable	-	-	23,021,012	23,021	102,442	-	-	-	125,463
Common stock issued for settlement of convertible debt	-	-	121,376,671	121,377	369,494	-	-	-	490,871
Common stock issued for service	-	-	74,509,222	74,509	182,491	-	-	-	257,000

F-5

Common stock issued for employee compensation	-	-	27,200,000	27,200	144,100	-	-	-	171,300
Common stock issued for penalty shares	-	-	9,044,556	9,044	32,890	-	-	-	41,934
Return of series B preferred stock for no consideration	(51)	-	-	-	-	-	-	-	-
Reclassification of derivative liability	-	-	-	-	175,000	-	-	-	175,000
Warrants granted for services	-	-	-	-	302,900	-	-	-	302,900
Accrued interest	-	-	-	-	-	-	(15,131)	-	(15,131)
Write-off subscription receivable and accrued interest	-	-	-	-	(446,156)	-	446,156	-	-
Net loss	-	-	-	-	-	-	-	(3,237,046)	(3,237,046)
<b>Balance, December 31, 2013</b>	<b>184,144</b>	<b>184</b>	<b>934,171,800</b>	<b>934,171</b>	<b>41,804,413</b>	<b>(5,768)</b>	<b>-</b>	<b>(48,268,503)</b>	<b>(5,535,503)</b>

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

## PureSafe Water Systems, Inc. and Subsidiary

## Consolidated Statements of Cash Flows

	<b>For the Years Ended</b>	
	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (3,237,046)	\$ (2,759,585)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	14,580	52,997
Amortization of patents and trademarks	6,104	6,104
Net loss on sale/abandonment of fixed assets	12,234	34,707
Loss on abandonment of inventory	51,471	-
Interest expense - amortization of deferred financing	25,066	125,428
Interest expense - penalty interest	353,322	9,000
Interest expense - stock based compensation, derivative liabilities	4,500	-
Stock based compensation	731,200	505,600
Loss on conversion of convertible notes to notes payable	-	85,000
Deferred rent	(7,050)	(25,750)
Interest receivable	(15,131)	(20,287)
Accretion of debt discount	223,825	796,040
Interest expense - derivative liabilities	245,200	-
Change in fair value of warrants and embedded conversion option	(393,000)	(998,300)
Changes in assets and liabilities:		
Prepaid expenses and other current assets	19,041	2,196
Inventories	129,611	145,375
Other assets	465	34,705
Customer deposits	(149,588)	149,588
Accounts payable, accrued expenses, accrued interest, accrued dividends, accrued compensation, accrued consulting and director fees, and other current liabilities	948,165	882,779
<b>Net Cash Used in Operating Activities</b>	<b>(1,037,031)</b>	<b>(974,403)</b>
<b>Cash Flows From Investing Activities:</b>		
Patent costs	(7,458)	-
Proceeds from sale of property and equipment	22,200	-
<b>Net Cash Provided by Investing Activities</b>	<b>14,742</b>	<b>-</b>
<b>Cash Flows From Financing Activities:</b>		
Cash proceeds from sale of common stock	570,800	412,270

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Cash proceeds from exercise of warrants	64,514	-
Cash proceeds from the exercise of warrants, common stock to be issued	38,423	-
Proceeds from convertible promissory notes	376,500	768,500
Repayment of convertible notes payable	(32,500)	-
Cash paid for loan costs	-	(130,024)
Cash proceeds from officers and directors convertible loans	-	105,000
Cash proceeds from promissory notes, officers and directors	9,051	-
Repayment of officers and directors loans	(48,500)	(104,000)
Cash proceeds from notes payable	12,500	75,000
Repayment of notes payable	(29,871)	(207,000)
<b>Net Cash Provided by Financing Activities</b>	<b>960,917</b>	<b>919,746</b>

F-7

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<b>Net decrease in cash</b>		(61,372)		(54,657)
Cash at beginning of year		63,571		118,228
<b>Cash at end of the year</b>	<b>\$</b>	<b>2,199</b>	<b>\$</b>	<b>63,571</b>
<b><u>Supplemental disclosures of cash flow information:</u></b>				
Cash paid during the year for interest	\$	29,717	\$	28,837
<b><u>Non-Cash Investing and Financing Activities:</u></b>				
Common stock issued for the settlement of liabilities	\$	616,334	\$	851,552
Common stock issued in connection with debt	\$	-	\$	175,000
Common stock issued for the settlement of a customer deposit	\$	-	\$	130,000
Reclassification of derivative liabilities to equity	\$	175,000	\$	-
Reclassification of equity instrument to derivative liabilities	\$	-	\$	(80,100)
Conversion of convertible notes payable to notes payable	\$	-	\$	185,000
Debt discount recorded on convertible debt and warrants accounted for as derivative liabilities	\$	354,000	\$	-
Loan financing costs	\$	22,000	\$	-
Write-off subscription receivable and accrued interest	\$	446,156	\$	-
Conversion of notes payable to convertible notes payable	\$	-	\$	207,770

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

**PureSafe Water Systems Inc. and Subsidiary**

**Notes to Consolidated Financial Statements**

**NOTE 1 DESCRIPTION OF BUSINESS**

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

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

**Basis of Presentation**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

**Principles of Consolidation**

The Company applies the guidance of Topic 810 Consolidation of the FASB Accounting Standards Codification to determine whether and how to consolidate another entity. Pursuant to ASC Paragraph 810-10-15-10 all majority-owned subsidiaries all entities in which a parent has a controlling financial interest shall be consolidated except (1) when control does not rest with the parent, the majority owner; (2) if the parent is a broker-dealer within the scope of Topic 940 and control is likely to be temporary; (3) consolidation by an investment company within the scope of Topic 946 of a non-investment-company investee. Pursuant to ASC Paragraph 810-10-15-8 the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree. The Company consolidates all less-than-majority-owned subsidiaries, if any, in which the parent's power to control exists.

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



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

The consolidated financial statements include all accounts of the Company and consolidated subsidiaries and/or entities as of December 31, 2013 and 2012 and for the years then ended.

All inter-company balances and transactions have been eliminated.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most significant estimates, among other things, are used in accounting for allowances for deferred income taxes, expected realizable values for long-lived assets (primarily intangible assets and property and equipment), contingencies, as well as the recording and presentation of its common stock and other securities. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the consolidated financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

## **Cash and Cash Equivalents**

The Company considers all highly liquid instruments with original maturity of three months or less when purchased to be cash equivalents. As of December 31, 2013 and 2012 the Company did not have any cash equivalents.

## **Patents and Trademarks**

Patents and trademarks amortize ratably over nine to fourteen years. The Company assesses the carrying value of its patents for impairment each year. Based on its assessments, the Company did not incur any impairment charges for the years ended December 31, 2013 and 2012.

## **Property and Equipment**

Property and equipment consists primarily of equipment and furniture and fixtures and is stated at cost. Depreciation and amortization are provided using the straight line method over the estimated useful lives (generally three to seven years) of the related assets. Leasehold improvements, once placed in service, are amortized over the shorter of the useful life or the remainder of the lease term. Expenditures for maintenance and repairs, which do not extend the economic useful life of the related assets, are charged to operations as incurred. Gains or losses on disposal of property and equipment are reflected in the statement of operations in the period of disposal.

## **Revenue Recognition**

The Company generally recognizes revenues under Staff Accounting Bulletin No. 104 when the following criteria are met, persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In addition the Company may enter into agreements that include multiple elements (i.e., products and services/training). Revenue under multiple element arrangements is recognized in accordance with FASB ASC 605-25 Multiple-Element Arrangements ( ASC 605 ). When vendor specific objective evidence or third party evidence of selling price for deliverables in an arrangement cannot be determined, the Company develops a best estimate of the selling price to separate deliverables and allocates arrangement consideration using the relative selling price method. Additionally, this guidance eliminates the residual method of allocation. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, we defer the fair value of the undelivered elements with the residual revenue allocated to the delivered elements. Fair value is determined based upon the price charged when the element is sold separately. If there is not sufficient evidence of the fair value of the undelivered elements, no revenue is allocated to the delivered elements and the total consideration received is deferred until delivery of those elements for which objective and

reliable evidence of the fair value is not available. For the years ended December 31, 2013 and 2012, the Company did not have any multiple deliverable elements.

### **Inventories**

Inventory consisting primarily of finished goods and raw materials is stated at the lower of cost or market utilizing the first-in, first-out method. The Company continually analyzes its slow-moving, excess and obsolete inventories. Based on historical and projected sales volumes and anticipated selling prices, the Company establishes reserves. If the Company does not meet its sales expectations, these reserves are increased. Products that are determined to be obsolete are written down to net realizable value. As of December 31, 2013, the inventory has been written down to its net realizable value.

### **Deferred Financing Costs**

Cost incurred in conjunction with the debt financing has been capitalized and will be amortized to interest expense using the straight line method, which approximates the interest rate method over the term of the debt and is included as a component of other assets. Amortization of deferred financing cost was approximately \$25,000 and \$125,000 for the years ended December 31, 2013 and 2012, respectively.

### **Derivative Liabilities**

In connection with the issuance of certain convertible promissory notes, the terms of the convertible notes included an embedded conversion feature; which provided for the settlement of certain convertible promissory notes into shares of common stock at a rate which was determined to be variable. The Company determined that the conversion feature was an embedded derivative instrument pursuant to ASC 815 Derivatives and Hedging

The accounting treatment of derivative financial instruments requires that the Company record the conversion option and related warrants at their fair values as of the inception date of the agreements and at fair value as of each subsequent balance sheet date. As a result of entering into the convertible promissory notes, the Company is required to classify all other non-employee warrants as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as a change in the fair value of derivative liabilities for each reporting period at each balance sheet date. The Company reassesses the classification at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

The fair value of conversion options that are convertible at a fixed number of shares or at a fixed conversion price are recorded using the intrinsic value method and conversion options at variable rates are valued using a Black-Scholes Valuation Model. Variable conversion options are deemed to be a "down-round protection" and therefore, do not meet the scope exception for treatment as a derivative under ASC 815. Since, "down-round protection" is not an input into the calculation of the fair value of the conversion option and cannot be considered "indexed to the Company's own stock" which is a requirement for the scope exception as outlined under ASC 815. The Company determined the fair value of the Binomial Lattice Model and the Black-Scholes Valuation Model to be materially the same. Warrants that have been reclassified to derivative liability that did not contain "down-round protection" were valued using the black-scholes model. The Company's outstanding warrants did not contain any down round protection.

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

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

	<b>For the Years Ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Assumptions:		
Risk-free interest rate	0.10 - 1.75%	0.37 - 1.18%
Expected life	3 - 5 years	1 month - 6 years
Expected volatility	125% - 175%	108%-171%
Dividends	0.0%	0.0%

## Stock-Based Compensation

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

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

For the years ended December 31, 2013 and 2012 the Company recorded stock based compensation of \$731,200 and \$505,600, respectively.

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

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

	<b>For the Years Ended</b>	
	<b>2013</b>	<b>December 31, 2012</b>
Assumptions:		
Risk-free interest rate	0.3 - 1.6%	.36%
Expected life	3 to 5 years	3 years
Expected volatility	125% - 175%	117%
Dividends	0.0%	0%

### **Fair Value of Financial Instruments**

The Company's financial instruments consist principally of cash, accounts payable and accrued expenses and debt payable. The Company determines the estimated fair value of such financial instruments presented in these financial statements using available market information and appropriate methodologies. These financial instruments are stated at their respective historical carrying amounts, which approximate fair value due to their short term nature.

### **Advertising and Marketing**

Advertising and marketing costs are expensed as incurred and are included in selling, general and administrative expenses. The Company incurred a charge of approximately \$25,835 and \$213,553 for the years ended December 31, 2013 and 2012, respectively.

### **Income Taxes**

Income taxes are accounted for under ASC 740, "Income Taxes," which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryovers. Valuation allowances are established when necessary to reduce deferred tax assets to amounts more likely than not to be realized.

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

The Company assesses the recoverability of its long lived assets, including property and equipment when there are indications that the assets might be impaired. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the asset's estimated future cash flows (discounted and with interest charges). If the carrying amount exceeds the asset's estimated future cash flows (discounted and with interest charges), the loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets. Based on its assessments, the Company did not incur any impairment charges for the years ended December 31, 2013 and 2012.

### **Research and Development**

Research and development costs consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge, which will be useful in developing new products or processes. The Company expenses all research and development costs as incurred. The Company incurred a charge of approximately \$55,874 and \$62,032 for the years ended December 31, 2013 and 2012, respectively.

### **Subsequent Events**

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would require adjustment or disclosure in the consolidated financial statements.

### NOTE 3 GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred a net loss of approximately \$3,237,000 and \$2,760,000 for each of the years ended December 31, 2013 and 2012 respectively. The Company has a working capital deficit of approximately \$5.6 million and \$4.6 million as of December 31, 2013 and 2012 respectively. The Company continues to incur recurring losses from operations and has an accumulated deficit since inception of approximately \$48.3 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to bring the Company's products to market and generate revenues, control costs, and obtain additional financing, as required and on reasonable terms. The Company's plans with respect to these matters include restructuring its existing debt and raising additional financing through issuance of preferred stock, common stock and/or debt. On January 23, 2013, The Company signed an Engineering Package Agreement ( ETG Agreement ) with Engineering Technologies Group, Inc. ( ETG ), Hopkinton, Massachusetts. Under the engineering agreement, ETG will provide detailed electronic engineering drawings and purchase specifications for the Company's water purification and filtration product and to facilitate the outsourcing of the assembly, sub-assembly and manufacturing. On January 25, 2013, the Company entered into an Exclusive Sales and Marketing Agreement (the Distribution Agreement ) with Global Equipment Marketing, Inc. ( GEM ), Hopkinton, Massachusetts, a distribution and marketing company. Under the Distribution Agreement, on an exclusive basis, GEM is responsible for promoting and selling the Company's products at their cost and expense. In exchange, GEM will receive a discount from the list prices of PureSafe products in connection with sales to its dealers, distributors, representatives and resellers. The Company remains responsible for the design and manufacturing of the products. The Company was evicted from its facilities at 160 Dupont Street, Plainview, NY 11803. The Company plans to outsource production of the product in the future. Any remaining inventory was moved to ETG's facilities in Hopkinton, Mass. On April 2, 2014, The Company announced that Stephen Hicks and Gilbert Steedley were appointed to the Board of Directors and that Stephen Hicks was appointed President of the Company. Henry Sargent was appointed Vice President and Secretary.

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

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



Subsequent to December 31, 2013, the Company has issued approximately \$190,000 of notes payable and approximately \$301,000 of convertible notes payable. From January 1, 2014 until October 23, 2014, the Company issued 414,812,709 shares of common stock for the settlement of \$219,620 loan principal plus \$24,850 accrued interest and fees.

**NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS.**

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Under this new guidance, companies must present this unrecognized tax benefit in the financial statements as a reduction to deferred tax assets created by net operating losses or other tax credits from prior periods that occur in the same taxing jurisdiction. If the unrecognized tax benefit exceeds such credits it should be presented in the financial statements as a liability. This update is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The U.S. Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08) in April 2014. This new standard raises the threshold for disposals to qualify as discontinued operations, allows companies to have significant continuing involvement and continuing cash flows and provides for new and additional disclosures of discontinued operations and individually material disposal transactions. The Company anticipates adopting the new standard when it becomes effective in the first quarter of 2015. The Company does not expect the adoption of ASU 2014-08 to have a material effect on its consolidated financial statements.

The FASB has issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending December 31, 2016 and the Company will continue to assess the impact on its consolidated financial statements.

The FASB and the SEC have issued certain other accounting standards updates and regulations that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during 2014 or 2013, and does not believe that any of those pronouncements will have a significant impact on the Company's consolidated financial statements at the time they become effective.

## **NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2013 and 2012:

		<b>2013</b>		<b>2012</b>
Leasehold improvement	\$	74,945	\$	74,945
Furniture and fixtures		31,987		49,265
Equipment		72,358		89,514
		179,290		213,724
Accumulated depreciation and amortization		(179,290)		(164,710)
Property and equipment, net	\$	-	\$	49,014

Depreciation and amortization expense was approximately \$15,000 and \$53,000 for the years ended December 31, 2013 and 2012, respectively.

On October 8, 2013 an eviction notice was issued by the landlord for the Company's facilities at 160 Dupont Street. The Company abandoned the space on October 11 2013. Accordingly the Company recorded a charge of \$21,720 for the loss on abandonment of property.

During the year ended December 31, 2013 the Company sold property and equipment and recorded a gain of \$9,486.

#### **NOTE 6 PATENTS AND TRADEMARKS**

Patents and trademarks as of December 31, 2013 and 2012 consist of the following:

		<b>2013</b>		<b>2012</b>
Patents	\$	104,621	\$	97,164
Trademarks		2,720		2,720
Total cost		107,341		99,884
Accumulated amortization		(47,919)		(41,816)
Patents and trademarks, net	\$	59,422	\$	58,068

Amortization expense for the years ended December 31, 2013 and 2012 was approximately \$6,100.

The following table presents the Company's estimate for amortization expense for each of the five succeeding years and thereafter.

<b>Year Ended December 31,</b>		
2014	\$	6,100
2015		6,100
2016		6,100
2017		6,100
2018		6,100
2019 and thereafter		28,922
	\$	59,422

#### **NOTE 7 INVENTORIES**

Inventories consist of the following at December 31, 2013 and 2012,

	<b>2013</b>	<b>2012</b>
Raw materials	\$ —	\$ 43,684
Finished Goods	141,636	279,034
Total	\$ 141,636	\$ 322,718

During the year ended December 31, 2013 inventory in the amount of \$56,344 was abandoned as a result of moving to a new facility. Our abandonment charges related to inventory have been included in Cost of Goods Sold in our Statements of Operations.

#### **NOTE 8 NET LOSS PER SHARE OF COMMON STOCK.**

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

Total shares issuable upon the exercise of warrants and conversion of preferred stock and convertible promissory notes for the years ended December 31, 2013 and 2012 were as follows:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Warrants	176,574,286	85,652,403
Convertible promissory notes	492,877,340	187,297,345
Convertible preferred stock	1,545,760	1,545,760
Total	670,997,386	274,495,508

For the years ended December 31, 2013 and 2012, 101,547,890 and 7,101,783 warrants were included in loss per share as their exercise price was determined to be nominal.

### **Fair Value**

ASC 820 Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Standard clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date and emphasizes that fair value is a market-based measurement and not an entity-specific measurement.

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

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

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

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

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

Liabilities measured at fair value on a recurring basis at December 31, 2013 and 2012 are as follows:

	<b>Quoted Prices in Active Markets for Identical Liabilities  (Level 1)</b>	<b>Significant Other Observable Inputs  (Level 2)</b>	<b>Significant Unobservable Inputs  (Level 3)</b>	<b>Balance at  December 31,</b>
Embedded conversion feature	\$	\$	\$ 224,000	\$ 224,000
Warrant liability	\$	\$	\$ 39,300	\$ 39,300
Balance at December 31, 2012	\$	\$	\$ 263,300	\$ 263,300

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Embedded conversion feature	\$	\$	\$	206,500	\$	206,500
Warrant liability	\$	\$	\$	92,500	\$	92,500
Balance at December 31, 2013	\$	\$	\$	299,000	\$	299,000

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

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs during the year ended December 31, 2013 and 2012.

**Conversion**

		<b>Warrants</b>		<b>Feature</b>		<b>Total</b>
Balance at - January 1, 2012	\$	446,400	\$	68,800	\$	515,200
Change in fair value of derivative liability		(537,500)		(460,800)		(998,300)
Included in liabilities (debt discount)		28,100		621,000		649,100
Included in stock based compensation		17,200				17,200
Included in stockholder's equity		85,100		(5,000)		80,100
Balance at - December 31, 2012	\$	39,300	\$	224,000	\$	263,300
Included in stock based compensation		4,500				4,500
Change in fair value of derivative liability		(297,100)		(95,900)		(393,000)
Included in liabilities (debt discount)		114,000		240,000		354,000
Included in liabilities (derivative expense)		209,800		35,400		245,200
Included in stockholder's equity		22,000		(197,000)		(175,000)
Transfers in and /or out of Level 3						
Balance at - December 31, 2013	\$	92,500	\$	206,500	\$	299,000

**NOTE 9 NOTES PAYABLE**

Notes payable and accrued interest at December 31, 2013 and 2012 consist of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	\$	\$
	-(a)	15,221(a)
	75,000(b)	75,000(b)
	245,860(c)	237,006(c)
	175,841(d)	165,628(d)
	83,952(e)	222,170(e)
	-(f)	-(f)
	12,500(g)	-(g)
Notes payable and accrued interest	593,153	715,025
Less: Current maturities	(593,153)	(706,829)
Notes payable and accrued interest, net of Current maturities	\$	\$
	-	8,196

(a)

In February, 2010, the Company acquired a vehicle for business use. Cost of the vehicle is approximately \$30,000 and the Company financed the entire cost. The financing term is approximately \$500 per month for sixty months based on an annual interest rate of 9%. During 2013 the loan was paid in full.

(b)

In April 2001, the Company issued a \$400,000 promissory note bearing interest at the rate of 2% per month. In consideration for the issuance of this note, 500,000 shares of common stock were issued to the note holder and a \$74,000 debt discount was recorded and fully amortized in the year ended December 31, 2001. The principal balance and accrued interest was payable on September 1, 2001. The Company did not make such payment and was required to issue an additional 100,000 shares to the note holder as a penalty. The Company recorded additional interest expense of \$12,300 related to the issuance of these penalty shares.

In October 2007, the Company entered into a settlement agreement with this note holder. Under the settlement agreement, the Company became obligated to make payments of \$75,000 each on or before December 31, 2007 and June 30, 2008. The June 20, 2008 payment remains unpaid. In addition, the Company was obligated to issue 2,500,000 shares of common stock to the note holder as settlement for the remaining balance due under the promissory note of \$477,934. In January 2008, the Company issued 1,250,000 of the 2,500,000 shares.



(c)

These are unsecured notes bearing interest at rates ranging from 10% to 15% per annum, and have no specific due date for repayment. The outstanding amount of \$245,860 and \$237,006 include principal of \$83,222 and accrued and unpaid interest of \$162,638 and \$153,784 as of December 31, 2013 and 2012, respectively. No demands for repayment have been made by the note holders. As of December 31, 2013, the Company is not compliant with the repayment terms of the notes and is in technical default.

(d)

In September 2009, the Company entered into agreements with three of the Company's consultants and vendors to defer a total in the aggregate of \$236,624 in compensation owed to them. In return, the Company issued to the three vendors each a promissory note for the deferment. The notes matured in January 2011 and interest will be accrued at 10% per annum compounded monthly. As of December 31, 2009 the Company reclassified \$236,624 from current liabilities to long term liabilities.

In February 2010, one of the above three vendors, requested to convert the note payable of \$90,000 principal plus \$5,781 accrued interest into the Company's common stock. The request was approved by Board of Directors on February 19, 2010 and the conversion price was set at \$0.055 which was the closing price published on OTCBB.com on the date of the approval of such request. On March 2, 2010, 1,741,464 shares were issued for such conversion.

As of December 31, 2013 and 2012, the Company is reflecting a liability of \$175,841 and \$165,628 which includes accrued interest of \$69,217 and \$59,004, respectively. As of December 31, 2013 the Company is not compliant with the repayment terms of the notes and is in technical default.

(e)

In 2012, the Company raised \$75,000 through issuing multiple promissory notes. These notes bear interest rate of 10% per annum and are due and payable between October 19 and October 26, 2012. As of December 31, 2012, the Company is reflecting \$76,452 which includes \$1,452 of accrued interest.

At the request of multiple lenders, the Company converted \$207,770 of note payable and accrued interest to convertible notes payable in 2012.

In September, at the request of the lender, the Company converted \$100,000 of convertible notes payable to \$185,000 of notes payable. The newly issued notes payable bear interest at rates of 6% and have maturity dates in December 2012 through January 2013. The Company is required to repay the notes payable in 5 installments with the final payment of \$65,000 in January 2013. As of December 31, 2012, the Company repaid \$45,337 principal which consist \$20,000 cash payment and \$25,337 in issuing 8,774,761 shares of common stock.

During the year ended December 31, 2013, at the request of a lender the Company repaid \$139,663 of debt and accrued interest for \$14,200 in cash and the issuance of 23,021,012 shares of common stock for the settlement of \$125,463 of the remaining balance.

As of December 31, 2012 and 2011, the Company is reflecting a liability of \$83,952 and \$222,170 which includes accrued interest of \$8,952 and \$7,507, respectively. As of December 31, 2013 the Company is not compliant with the repayment terms of the notes and is in technical default.

(f)

On December 16, 2011, the Company issued a \$140,000 promissory note bearing interest at the rate of 15% per annum. This note shall be payable in one monthly installment with the first such installment to be paid on the 15th day of March 2012. The Company may also, at its discretion, permit repayment to be made by assignment of its accounts receivable due from the State of Alaska.

As of December 31, 2011, the Company is reflecting a liability of \$140,978 which includes accrued interest of \$978.

On March 12, 2012, the Company repaid the Note Holder, principal and interest of total \$145,794.

On September 17, 2013, the Company issued a \$12,500 promissory note bearing interest at the rate of 5% per annum. This note matures on December 31, 2014. As of December 31, 2013 the outstanding principal balance on the note was \$12,500.

(g)

As of December 31, 2013, the Company is in technical default with the repayment terms of the notes payable outstanding.

#### **NOTE 10 CONVERTIBLE PROMISSORY NOTES PAYABLE**

(a)

As of December 31, 2010, the Company has cumulative net liabilities of \$428,475, net of \$241,657 debt discount. The liability includes \$645,000 unpaid convertible notes principal and \$25,132 accrued interest for all the convertible notes the Company entered into prior to January 1, 2011. These notes mature in one year from the date issued and bear interest at 10% per annum and are convertible at the option of the holder in to shares of common stock. The conversion prices range from \$0.044 to \$0.07. As of January 1, 2011, the Company was not in compliance with the repayment terms of these notes.

In 2011, the Company raised \$300,000 through debt financing from multiple lenders. The Company issued each lender a convertible promissory note in the principal amount of money lender loaned to the Company. The promissory note matures in one year and bears interest at 10% per annum and is convertible at the option of the holder in to shares of common stock. The conversion prices range from \$0.067 to \$0.157. In addition the Company granted 634,229 warrants to the note holders. The warrants have a life of 5 years and are fully vested on the date of the grant, the exercise price of the warrants ranges from \$0.084 to \$0.1884.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of these note \$300,000 was recorded net of a discount of \$57,638. The debt discount consisted of approximately \$13,719 related to the fair value of the embedded conversion option and approximately \$43,919 related to the fair value of the warrants. The debt discount was being charged to interest expense ratably over the term of the convertible note.

During the year ended December 31, 2011, multiple lenders requested to convert total aggregated \$125,000 principal plus accrued interest of \$14,097 into the Company s common stock. The Company issued total aggregated 2,539,747 shares of common stock in connection with such conversions.

In 2012, the Company raised \$768,500 through debt financing from multiple lenders. The Company issued each lender a convertible promissory note in the principal amount of money lender loaned to the Company. The Company issued the lender for each loan a convertible promissory note bearing interest at rates of 8% to 12% per annum with maturity dates of September 15, 2012 to November 16, 2013. The loans and accrued interest are to be paid on the maturity dates. Each loan is evidenced by the promissory note the Company issued to the lender which contains conversion clauses that allow the lenders the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. Each of the notes contains variable conversion prices representing discount rate between 5% and 50% of market price. In addition, the Company also issued total 1,933,333 warrants to the lenders to purchase additional shares of common stock at exercise of \$0.072 to \$0.05. These warrants have term of 5 years. In addition a note-holder received 4,375,000 shares of common stock in consideration for entering into the note.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of these notes were recorded net of a discount of \$649,100. The debt discount was being charged to interest expense ratably over the term of the convertible note.

In addition, the Company incurred approximately \$130,000 of financing cost related to these transactions which will be amortized over the term of the loans.

On October 4, 2013, at the request of the lender due to default, the Company converted \$303,499 of convertible notes and accrued interest into a new convertible note in the amount of \$531,431. The increase in principal was due to amounts charged by the lender for penalties, interest, legal and other fees. The newly issued note bears interest at rates of 18% per annum and is due on demand. The lender may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under the Revolving Note into shares of the Company s common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company s common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 4.99% of our outstanding common stock upon any conversion. The conversion price is subject to anti-dilution protection in the event that the Company issues additional equity securities at a price less than the conversion price. On March 10, 2014, TCA accelerated the outstanding principal balance, interest, calculated at the default rate of 18%, and all sums due under the original note and any amendments. (see Note 13 Litigation)

During the year ended December 31, 2012, multiple lenders requested to convert total aggregated \$664,576 principal plus accrued interest of \$29,955 into the Company s common stock. The Company issued total aggregated 146,134,552 shares of common stock in connection with such conversions.

During the year ended December 31, 2013, multiple lenders requested to convert total aggregated \$342,151 principal plus accrued interest of \$57,519 into the Company s common stock. The Company issued total aggregated 84,053,707

shares of common stock in connection with such conversions.

During the year ended December 31, 2013, the Company repaid principal of \$32,500.

As of December 31, 2013, the Company is reflecting liabilities of \$1,055,272 including accrued interest of \$148,843 and the Company is not in compliance with the repayment terms with certain notes and is currently in technical default.

(b)

On August 3, 2011, the Company borrowed \$125,000 from a private investor and issued to the investor a secured convertible promissory note in the principal amount of \$125,000. The note matures on December 1, 2011 and bears interest at a stated rate of 8% per annum and the note is convertible into shares of common stock of the Company at a 30% discount from the current market price (as defined in the Note). The Company has the right to redeem the Note at any time by paying the outstanding principal amount of the Note multiplied by a premium according to the following schedule, plus all accrued interest: 120% of the outstanding principal amount if redeemed within 90 days after the issuance date; 125% of the outstanding principal amount if redeemed within 180 days after the issuance date; 130% of the outstanding principal amount if redeemed after 180 days after the issuance date. The Note is further guaranteed by two officers of the Company and secured by stock pledge agreements with each officer, pursuant to which each of the officers has pledged 2,000,000 shares of the Company's common stock owned by them as collateral to secure payment of the Note. In connection with the issuance of the Note, the Company also issued to the investor a common stock purchase warrant, expiring August 3, 2018, to purchase 1,250,000 shares of common stock at an exercise price of \$0.10 per share.

The Company accounted for the issuance of the convertible promissory notes in accordance with ASC 815 Derivatives and Hedging. Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note of \$125,000 was recorded net of a discount of \$125,000. The debt discount consisted of \$83,900 to the fair value of the warrants and \$41,100 related to the fair value of the embedded conversion option. In addition to the \$125,000 mentioned above, the Company recorded a charge in the amount of \$15,900 which represents the fair value of conversion options in excess of the debt discount recorded. The debt discount will be charged to interest expense ratably over the term of the convertible notes.

In 2012, the lender requested to convert principal \$125,000 plus accrued interest of \$6,685 into the Company's common stock. The Company issued 3,581,697 shares of common stock in connection with such conversion.

(c)

On January 8, 2013 for gross proceeds of \$25,000 the Company issued a convertible promissory note bearing interest at the rate of 10% per annum with a maturity date of January 8, 2014. The loan and accrued interest are to be paid on the maturity date. The promissory note contains conversion clauses that allow the lender the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock at a conversion rate of \$0.03 per share. In addition, the Company also issued 1,666,667 warrants to the lender to purchase additional shares of common stock at an exercise price of \$0.0036 per share. These warrants are fully vested and have a term of 5 years.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$13,600. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The debt discount is charged to interest expense ratably over the term of the convertible note.

During the year ended December 31, 2013, the note holder requested to convert total aggregated \$25,000 principal plus accrued interest of \$167, into the Company's common stock. The Company issued total aggregated 8,388,890 shares of common stock in connection with such conversion.

(d)

On May 16, 2013, the Company in conjunction with an existing note holder entered into a new loan agreement with a new lender for the sale and transfer of a \$20,000 note plus \$4,895 accrued interest this note matured and was in technical default with the repayment provisions of the terms of the agreement. The Company cancelled the original note and issued the new lender a convertible promissory note for \$29,895 bearing interest rate of 10% per annum with

a maturity date of January 1, 2014. The loan and accrued interest are to be paid on the maturity date. The promissory note contains conversion clauses that allow the lender the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock at a conversion rate of the lesser of a.) 60% of the low traded price of the Company's common stock for the twenty trading day period immediately preceding the date at the which Holder, by written notice gives notice to the Company of its election to convert or b.) \$0.01 per share. The Company recorded \$5,000 loan cost in connection with the increase of the principal included in deferred financing costs. The loan cost will be amortized over the life of the loan.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$19,930. The debt discount relates to the beneficial conversion feature embedded in the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note.

During the year the Company was charged interest and penalties by the note holder totaling \$33,515.

During the year ended December 31, 2013, the note holder requested to convert total aggregated \$29,895 principal plus accrued interest and penalties of \$15,435, into the Company's common stock. The Company issued total aggregated 10,000,000 shares of common stock in connection with such conversion.

(e)

On May 22, 2013, the Company entered into a loan agreement ( credit facility) for the principal sum of \$335,000 less any fees. The components of the credit facility are \$300,000 proceeds of the loan plus \$35,000 original issue discount. The maturity date is one year from the effective date of each draw made by the Company. The loan and accrued interest are to be paid on the maturity date. In addition after 90 days that the amount drawn is outstanding a one-time interest charge of 12% will be charged and added to the principal sum. The promissory note contains conversion clauses that allow the lender, at any time from 180 days after the Effective Date, the option to convert the amount payable plus all accrued and unpaid interest due under the agreement into common stock at a conversion price per share of the lesser of \$0.018 or 60% of the lowest trade price in the 25 trading days preceding the conversion.

The Company received net cash proceeds of \$65,000 upon entering the agreement on May 22, 2013 and recorded \$6,500 loan cost in connection with this transaction. The loan costs have been included in deferred financing costs and will be amortized through the maturity date of the loan.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$41,000. The debt discount relates to the beneficial conversion feature embedded in the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. On August 20, 2013, the Company recorded a \$8,580 one-time interest expense and added such amount to the principal of the May 22, 2013 draw when the Company failed to repay the loan within 90 days.

On August 22, 2013 the Company drew down from the credit facility \$35,500 and received net cash proceeds of \$30,000 after the associated legal fees. The Company recorded \$5,500 loan cost in connection with this transaction and the loan cost will be amortized through the maturity date of the loan. The gross proceeds from the sale of the note are recorded net of a debt discount of \$29,000. The debt discount relates to the beneficial conversion feature embedded in the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note.

On October 23, 2013, the Company drew down from the credit facility \$55,000 and received net cash proceeds of \$50,000 after the associated legal fees. The Company recorded \$5,000 loan cost in connection with this transaction and the loan cost will be amortized through the maturity date of the loan. The gross proceeds from the sale of the note are recorded net of a debt discount of \$55,000. The debt discount relates to fair value of the conversion option of the note. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

On July 11, 2013, the Company in conjunction with an existing note holder entered into a new loan agreement with a new lender for the sale and transfer of a \$20,000 promissory note plus \$5,095 accrued interest this note matured and was in technical default with the repayment provisions of the terms of the agreement. The Company cancelled the original promissory note and issued the new lender a convertible promissory note for \$25,000 with a maturity date of September 30, 2013. The convertible promissory note contains conversion clauses that allow the lender the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock at a conversion rate of the lesser of (a.) \$0.015 or (b) 50% of the lowest closing bid price for the Company's common stock during the twenty (20) trading day period immediately preceding the date at the which Holder, by written notice gives notice to the Company of its election to convert. The Company recorded \$33,000 debt discount and the excess fair value of 8,000 was charged to interest expense upon the consummation of the arrangement.



During the year ended December 31, 2013, the note holder requested to convert total aggregated \$25,470 principal plus accrued interest of \$0, into the Company's common stock. The Company issued total aggregated 4,209,917 shares of common stock in connection with such conversion.

(f)

A convertible promissory note was issued on August 19, 2013 in the amount of \$25,000 to a lender. The note matures on August 19, 2014 with interest at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.015 per shares. In addition, 8,333,333 Warrants were issued at a price of \$.003 per share. The warrants are fully vested and have a life of five years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$121,400. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The excess fair value of \$96,400 was charged to interest expense on the date of the agreement and the debt discount is charged to interest expense ratably over the term of the convertible note.

(g)

On July 25, 2013, the Company was advanced \$10,000 from a lender and subsequently on August 16, 2013, the lender funded another \$25,000. The Company issued a convertible promissory note for the total amount of \$35,000 to the lender. The note matures in one year from the issuance date with interest at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.005 per shares. In addition, 5,833,333 warrants were issued with an exercise price of \$.006 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$159,300. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The excess fair value of \$124,300 was charged to interest expense on the date of the agreement and the debt discount is charged to interest expense ratably over the term of the convertible note

(h)

On September 5, 2013 the Company issued a convertible promissory note for \$ 5,000. The note matures in one year from the issuance date with the stated interest rate at 10%. The note is convertible into the Company s common stock at a conversion price of \$0.005 per shares. In addition, 200,000 Warrants were issued with an exercise price of \$0.006 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$5,700. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The excess fair value of \$700 was charged to interest expense on the date of the agreement and the debt discount is charged to interest expense ratably over the term of the convertible note. The debt discount is charged to interest expense ratably over the term of the convertible note.

(i)

On September 12, 2013 the Company issued a convertible promissory note for \$ 100,000. The note matures in one year from the issuance date with the stated interest rate at 10%. The note is convertible into the Company s common stock at a conversion price of \$0.0085 per share. In addition, 10,416,666 warrants were issued with an exercise price of \$0.0096 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$82,400. The debt discount relates to fair value of the warrants attached to the notes. The debt discount is charged to interest expense ratably over the term of the convertible note.

(j)

On December 10, 2013 the Company issued a convertible promissory note for \$ 35,000. The note matures in one year from the issuance date with the stated interest rate at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.005 per share. In addition, 5,833,333 warrants were issued with an exercise price of \$0.006 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$35,000. The debt discount relates to fair value of the conversion option and the warrants attached to the notes. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option and warrants on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

(k)

During the year ended December 31, 2013 the Company issued a total of 121,376,671 shares of common stock upon requests from note holders to convert loans with principal plus accrued interest totaling \$57,686 based on the terms set forth in the loans.

As of December 31, 2013, the Company is in technical default with the repayment terms of the convertible notes payable.

Convertible promissory notes payable and accrued interest at December 31, 2013 and 2012 consists of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Convertible notes payable	\$ 1,449,619	\$ 1,191,716
Discount on convertible notes	(210,781)	(80,606)
Convertible notes payable, net	1,238,838	1,111,110
Less current maturities	(1,238,838)	(1,111,110)
Long-Term Portion	\$ —	\$ —

**NOTE 11 – CONVERTIBLE NOTES AND NOTES PAYABLE – OFFICERS & DIRECTOR**

Convertible notes and notes payable – Officers & Director and accrued interest at December 31, 2013 and 2012 consists of the following:

	<b>2013</b>	<b>2012</b>
	\$ 435,382(a)	\$ 406,682(a)
	222,322(b)	208,322(b)
	54,008(c)	57,260(c)
	39,113(d)	71,490(d)
	46,378(e)	42,378(e)
	25,000(f)	25,000(f)
	5,051(g)	-(g)
Total	827,254	811,132
Less: Current maturities	(827,254)	(811,132)
Convertible notes and notes payable – Officers & Director and accrued interest, net of Current maturities	\$ —	\$ —

(a)

In September 2009, the Company entered into agreements with the Chief Executive Officer and Chief Financial Officer together to defer a total of \$287,000 in compensation owed to them as of September 30, 2009. In return, the

Company issued to the Chief Executive Officer and Chief Financial Officer each a promissory note for the deferment. The notes mature in January 2011 and interest will be accrued at 10% per annum compounded monthly.

As of December 31, 2013 and 2012, the Company is reflecting a liability of \$435,382 and \$406,682 which includes \$148,382 and \$119,682 of accrued interest, respectively and the Company is not compliant with the repayment terms.

(b)

On April 7, 2010, the Company's Chief Executive Officer, and the Company's former Chief Financial Officer each made loans of \$100,000 to the Company. The loans accrue interest at the rate of 7% per annum. In addition, the Company issued warrants to each officer to purchase 431,034 shares of common stock at an exercise price of \$0.059 per share. The loans are due and payable by or on October 7, 2010. The interests accrued on the loans are to be paid on the 7th day of each month until the loans mature and paid off. The loans were evidenced by the promissory notes the Company issued to the two officers which each contain a conversion clause that allow the officers at the officer's sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was set at \$0.059 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sales of the notes of \$200,000 were recorded net of a discount of \$101,600. The debt discount consisted of \$34,800 related to the fair value of the warrants and approximately \$66,800 related to the fair value of the embedded conversion option. The debt discount will be charged to interest expense ratably over the term of the convertible note.

As of December 31, 2013, and 2012, the Company is reflecting a liability of \$222,322 and \$208,322 which includes \$22,322 and \$8,322 accrued interest, respectively and the Company is not compliant with the repayment terms.

(c)

On February 7, 2011, the Company's Chief Executive Officer and the Company's former Chief Financial Officer each made loans of \$50,000 to the Company. The loans accrue interest at the rate of 10% per annum. In addition, the Company issued warrants to each officer to purchase 89,928 shares of common stock at an exercise price of \$0.139 per share. The loans are due and payable by or on February 7, 2012. The loan is to be paid on the maturity date and the accrued interest is to be paid at the end of each month. The loans were evidenced by the promissory notes the Company issued to the two officers which each contain a conversion clause that allow the officers at the officer's sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was \$0.139 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the notes in accordance with ASC 470 Debt and accordingly the gross proceeds of \$100,000 from the sales of the notes were recorded net of a debt discount of \$33,612. The debt discount related to the relative fair value of the warrants and was charged to interest expense ratably over the term of the loan.

In 2011, the Company paid repaid \$40,000 principal and paid \$6,189 accrued interest. In 2012, the Company repaid \$6,000 principal and paid \$3,050 accrued interest. In 2013, the Company paid repaid \$8,000 in principal.

As of December 31, 2013, and 2012, the Company is reflecting a liability of \$54,008 and \$57,260 which includes \$8,008 and \$3,260 accrued interest, respectively and the Company is not compliant with the repayment terms.

(d)

On March 16, 2011, the Company's Chief Financial Officer made a loan of \$85,000 to the Company. The loan accrues interest at the rate of 10% per annum. In addition, the Company issued warrants to purchase 174,180 shares of common stock at an exercise price of \$0.122 per share. The loan is due and payable by or on March 16, 2012. The loan is to be paid on the maturity date and the accrued interest is to be paid at the end of each month. The loan is evidenced by the promissory note the Company issued to the officer which contains a conversion clause that allow the officer at the officer's sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was \$0.122 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the note in accordance with ASC 470 Debt and accordingly the gross proceeds of \$85,000 from the sales of the note was recorded net of a debt discount of \$28,610. The debt discount related to the relative fair value of the warrants and is being charged to interest expense ratably over the term of the note.

In 2012, the Company repaid \$18,000 in principal. In 2013, the Company repaid \$36,500 in principal

As of December 31, 2013, and 2012, the Company is reflecting a liability of \$39,113 and \$71,490 which includes \$8,613 and \$4,490 accrued interest, respectively and the Company is not compliant with the repayment terms.

(e)

On March 28, 2011, the Company's Chief Financial Officer made a loan of \$40,000 to the Company. The loan pays interest monthly at the rate of 10% per annum. In addition, the Company issued warrants to purchase 83,333 shares of common stock at an exercise price of \$0.12 per share. The loan is due and payable by or on March 28, 2012. The loan is to be paid on the maturity date and the accrued interest is to be paid at the end of each month. The loan is evidenced by the promissory note the Company issued to the officer which contains a conversion clause that allow the officer at the officer's sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was \$0.12 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the note in accordance with ASC 470 Debt and accordingly the gross proceeds of \$40,000 from the sales of the note was recorded net of a debt discount of \$13,472. The debt discount related to the relative fair value of the warrants and is being charged to interest expense ratably over the term of the note.

As of December 31, 2013 and 2012, the Company is reflecting a liability of \$46,378 and \$42,378 which includes \$6,378 and \$2,378 accrued interest, respectively. The Company is not compliant with the repayment terms.

(f)

On February 13, 2012 and on October 5, 2012, the Company's Chief Executive Officer each made a short term loan of \$10,000 and \$15,000 to the Company. These loans were intended to be repaid within 2 months. No documents were prepared nor interest accrued. As of December 31, 2013 and 2012, the Company is reflecting a liability of \$25,000. The Company is not compliant with the repayment terms.

(g)

On January 3, 2013, the Company's Chief Executive Officer each made a short term loan of \$9,051 to the Company. This loan was intended to be repaid within 2 months. No documents were prepared nor interest accrued. During 2013 \$4,000 was repaid. As of December 31, 2013 the Company is reflecting a liability of \$5,051. The Company is not compliant with the repayment terms.

F-24

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**NOTE 12 RELATED PARTY TRANSACTIONS.**

(a)

On January 2, 2013, the Company issued a total of 12,820,512 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and former Chief Financial Officer, each of which received 3,205,128 warrants for their first quarter of 2013 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on December 6, 2011, when the Board approved replacing directors' annual compensation of \$50,000 with three year warrants payable quarterly. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$70,800 of stock-based compensation in connection with this issuance.

(b)

On March 18, 2013, the Company issued to its Chief Executive Officer 15,000,000 shares of common stock and warrants to purchase an additional 15,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. The shares and warrants are fully vested on the date of grant. The Company recorded \$188,700 of stock-based compensation which includes \$97,500 for the share issuance and \$91,200 for the warrants granted.

(c)

On March 18, 2013, the Company issued to its former Chief Financial Officer 10,000,000 shares of common stock and warrants to purchase an additional 10,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. The shares and warrants are fully vested on the date of grant. The Company recorded \$125,800 of stock-based compensation which includes \$65,000 for the share issuance and \$60,800 for the warrants granted.

(d)

On April 5, 2013, the Company issued a total of 3,846,152 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and Chief Financial Officer, each of which received 961,538 warrants for their second quarter of 2013 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on December 6, 2011, when the Board approved replacing directors' annual compensation of \$50,000 with three year warrants payable quarterly. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$27,600 of stock-based compensation in connection with this issuance.

(e)

On July 1, 2013, the Company issued a total of 2,702,704 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and Chief Financial Officer, each of which received 675,676 warrants for their third quarter of 2013 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on December 6, 2011, when the Board approved replacing directors annual compensation of \$50,000 with three year warrants payable quarterly. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$40,800 of stock-based compensation in connection with this issuance.

(f)

On July 7, 2013, the Company issued a total of 650,000 warrants to purchase common stock to its employees. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$11,700 of stock-based compensation in connection with this issuance.

(g)

On June 26, 2012 the Board of Directors of the Company designated and authorized the Series B Preferred Stock ("Series B") as set forth in a Certificate of Designation that was filed with the Secretary of State of the State of Delaware. The Series B has a par value of \$0.001 per share, no rights to dividends but provides for liquidation rights which entitle the holder to a pro-rata share of net assets. The Series B carried no conversion provisions. Subsequent to March 31, 2013 all outstanding shares of Series B were returned by the holder for no consideration to the Company, and the Company's Board of Directors authorized cancellation of the Series B. The Certificate of Amendment cancelling the Series B Preferred Stock was filed with the State of Delaware on April 16, 2013.

## **NOTE 13 COMMITMENTS AND CONTINGENCIES**

### **Operating Leases**

#### 25 Fairchild Ave

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



In March 2012 management exercised a Good Guy Clause in its lease and abandoned the space at 25 Fairchild Avenue. Accordingly the Company recorded a charge of \$34,707 for the loss on abandonment of property. The Company continues to accrue rent and rent related expenses per the Lease agreement. The Company is a defendant in a suit in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC, as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, N.Y. 11803, with money damages, as of February 2014, requested in the amount of \$ 475,930 which have been accrued for as of December 31, 2013. During 2013 the Company recorded rent and rent related expenses of \$341,849 which includes a charge of \$229,234 relating to the lawsuit.

#### 160 Dupont Street

On May 24, 2010, effective July 1, 2010, the Company entered into a two-year lease in Plainview, New York. The facility is to serve as the Company's production facilities, as well as its headquarters. Under the terms of the lease the Company paid a deposit of approximate \$12,000. The minimum monthly lease payments due under this lease are approximately \$6,000 for the period July 1, 2010 through June 30, 2011 and approximately \$10,700 for the period July 1, 2011 through June 30, 2012.

On October 8, 2013 an eviction notice was issued by the landlord for the Company's facilities at 160 Dupont Street. The Company abandoned the space on October 11 and immediately moved to 485 Underhill Boulevard, Syosset N.Y.

#### 485 Underhill Blvd.

In October 2013 the Company entered into an operating lease for its Syosset N.Y. office facility under a month-to-month agreement starting in October 2013. The Company will pay monthly rental payments of \$3,500. The Company exited the space in July 2014 and moved to 35 East Mall, Plainview N.Y.

#### 35 East Mall

In June 2014 the Company entered into an operating lease for its Plainview N.Y. office facility for a period of six months starting in July 2014. The Company will pay monthly rental payments of \$1,050. The lease may be renewed in six month increments, with forty-five days notice and is subject to a 5% increase per annum.

### **Litigation**

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

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

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

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows. As of December 31, 2013, the Company has the following litigation outstanding.

The Company is a defendant in a suit in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC ( Fairchild ), as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, New York 11803, with money damages, as of February 2014, requested in the amount of \$475,930, which have been accrued for and included in accounts payable and accrued liabilities as of December 31, 2013. An inquest is set to begin on December 3, 2014 to determine the amount of money damages due on Fairchild's claim.

The Company on April 4, 2013, was served with a summons and complaint, filed with the Supreme Court of the State of New York, County of New York, Levin Consulting Group, LLC ( Levin ), as plaintiff, where the plaintiff is claiming that additional shares of the Company's Common Stock are issuable by the Company to plaintiff in connection with the exercise by plaintiff of a common stock purchase warrant issued by the Company. The warrant was originally issued contemporaneously with the issuance of a \$20,000 promissory note to Levin. In June 2014 the Company entered into a settlement and has agreed to issue a convertible promissory note in the amount of \$50,000 to the plaintiff. The convertible note matures on December 31, 2015 and accrues interest at 10% per annum. The holder may convert all or any portion of the outstanding principal and accrued and unpaid interest due and payable under the note into shares of the Company's common stock at a conversion price equal to 50% of the lowest closing bid price of the Company's common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 9.999% of our outstanding common stock upon any conversion. If the closing bid price for the common stock on the date in which the conversion shares are deposited into the holders brokerage account and the holder may execute trades of the conversion shares ( the Clearing Date ) then the conversion price shall be adjusted such that the discount be taken from the closing bid price on the Clearing Date. The original \$20,000 note remains outstanding. As of December 31, 2013 the Company has accrued a \$50,000 loss as a result of the settlement and is included in accounts payable and accrued liabilities.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP ( TCA ), providing for the issuance of \$275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. On October 4, 2013, at the request of the lender due to default, the Company converted \$303,499 of convertible notes and accrued interest into a new convertible note in the amount of \$531,431. The increase in principal was due to amounts charged by the lender for penalties, interest, legal and other fees. The newly issued note bears interest at rates of 18% per annum and is due on demand. The lender may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under the Note into shares of the Company's common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company's common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 4.99% of our outstanding common stock upon any conversion. The conversion price is subject to anti-dilution protection in the event that the Company issues additional equity securities at a price less than the conversion price. On March 10, 2014, TCA accelerated the outstanding principal balance, interest, calculated at the default rate of 18%, and all sums due under the original note and any amendments. In August 2014 a default final judgment was entered against the Company concluding that TCA is entitled to damages in the amount of \$610,349, to foreclose upon the security interests, and to recover attorneys' fees and costs incurred by TCA. In addition prejudgment interest shall be assessed at a rate of 18% per annum and post judgment interest shall be assessed at a rate of 4.75% per annum. As of December 31, 2013 the Company is reporting a liability of \$554,814 related to the TCA claim and is included in convertible notes payable.

On November 27, 2013, the Company entered into a settlement agreement with Tarpon Bay Partners LLC ( Tarpon ), a related party. The manager of Tarpon is Stephen Hicks, the President of the Company. Tarpon previously purchase outstanding liabilities of the Company from TCA in the amount of \$506,431 and Designs and Project Development Corporation (a former landlord) in the amount of \$56,429. Per the terms of the settlement the Company was to issue Tarpon shares of common stock in one or more tranches as necessary, and subject to adjustment and ownership limitations, and a convertible promissory note in the principal amount of \$75,000. The Company failed to issue shares to Tarpon and in the first quarter of 2014 TCA rescinded its liabilities purchase agreement with Tarpon. As of December 31, 2013 the Company is reporting a liability of \$57,484 related to the Designs and Project Development

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

On January 31, 2014, in conjunction with the settlement agreement outlined above, the Company issued Tarpon a convertible promissory note in the principal amount of \$75,000. The convertible note matures one year from the date of issuance with interest at 10% per annum. The convertible promissory note shall have no registration rights and shall be convertible into the common stock of the Company at any time at a conversion price equal to 75% of the low closing bid price for the twenty days prior to conversion.

The Company was notified by an April 22, 2013 letter from The Depository Trust Company ( DTC ) that DTC had determined to impose a restriction on physical deposit and on Deposit/Withdrawal At Custodian ( DWAC ) electronic deposit transactions (referred to as a deposit chill ) on the Company's common stock. The effect of the deposit chill was that, for the period April 22, 2013 through August 6, 2013, when the deposit chill was lifted following submissions by the Company, no new shares of the Company's common stock were accepted for deposit with DTC for electronic transfer. As of October 2014 the restriction had not been lifted.

An eviction notice was issued on October 8 by the landlord for 160 Dupont Street, Five Towns Realty Associates, Inc ( Five Towns Realty ). There is currently an outstanding balance of \$54,739 that is subject to a lawsuit and is included in accounts payable and accrued liabilities at December 31, 2013. The Company is currently in negotiations with Five Towns Realty to reach a settlement.

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

The matter proceeded to inquest and the court awarded judgment to the plaintiff against the Company in the sum of \$25,000. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$36,613. An appeal has been taken from the judgment. The appeal has been perfected by the filing of the record and brief in the Supreme Court of the state of New York. As of December 31, 2013 the Company is reporting a liability of \$36,613 related to the judgment.

#### **NOTE 14 STOCKHOLDERS' DEFICIENCY.**

**During the year ended December 31, 2013, the Company recorded the following transactions:**

##### **Debt**

During the year ended December 31, 2013, the Company issued a total of 121,376,671 shares of common stock upon the requests from note holders to convert principal plus accrued interest totaling \$490,871 into the Company's common stock based on the terms set forth in the loans. The conversion rates were from \$0.0009 to \$0.014 per share

During the year ended December 31, 2013, the Company issued a total of 23,021,012 shares of common stock to settle notes payable and accrued interest of \$125,463.

On February 4, 2013, the Company issued 4,856,726 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$10,199 of interest expense for such issuance.

On July 15, 2013, the Company issued 526,312 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$7,895 of interest expense for such issuance.



On October 14, 2013, the Company issued 2,078,972 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$14,345 of interest expense for such issuance.

On October 22, 2013, the Company issued 1,582,546 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$9,495 of interest expense for such issuance.

## Cash

### Through Equity Financing:

During the year ended December 31, 2013, for cash proceeds of \$570,800 the Company sold 106,066,743 shares of common stock and warrants to purchase additional 26,516,687 shares of common stock at exercise prices of \$0.0039 to \$0.017 per share. The warrants have a term of three years and are fully vested on the date of issuance.

During the year ended December 31, 2013, for gross proceeds of \$64,514, the Company issued 11,609,661 shares of common stock to multiple investors who exercised their warrants to purchase shares of common stock. The exercises prices ranged from \$0.0035 to \$0.0184.

On August 27, 2013 the Company received proceeds of \$10,500 for the exercise of 1,093,750 warrants as of December 31, 2013 the shares have not been issued and accordingly the Company recorded the liability for the share issuance.

On July 9, 2013 the Company received proceeds of \$27,923 for the exercise of 2,389,817 warrants as of December 31, 2013 the shares have not been issued and accordingly the Company recorded the liability for the share issuance.

## Services

On March 18, 2013, the Company issued to its Chief Executive Officer 15,000,000 shares of common stock and warrants to purchase additional 15,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. Both shares and warrants are fully vested on the date of grant. The Company recorded \$188,700 of stock-based compensation which includes \$97,500 for the shares issuance and \$91,200 for the warrants granted.

On March 18, 2013, the Company issued to its former Chief Financial Officer 10,000,000 shares of common stock and warrants to purchase additional 10,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. Both shares and warrants are fully vested on the date of grant. The Company recorded \$125,800 of stock-based compensation which includes \$65,000 for the shares issuance and \$60,800 for the warrants granted.

On March 25, 2013, the Company issued 950,000 shares of common stock to its employees. The issuance was approved by the Board of Directors on January 7, 2013 and the shares are fully vested on the date of grant. The Company recorded \$3,800 stock-based compensation in connection with such issuance.

On March 25, 2013, the Company issued 1,250,000 shares of common stock to multiple consultants. The issuance was approved by the Board of Directors on January 7, 2013 and the shares are fully vested on the date of grant. The Company recorded \$5,000 of stock-based compensation in connection with such issuance.

On March 14, 2013 and June 25, 2013, per the terms of an agreement entered into on January 24, 2013, the Company issued total 50,000,000 shares of common stock to Engineering Technologies Group, Inc. ( ETG ). The shares were fully vested on the date of issuance. The Company recorded a stock-based compensation charge of \$150,000 for the fair value of the shares included in connection with such issuance.

On March 19, 2013, the Company issued 3,000,000 shares of common stock to a consultant for services received. The shares are fully vested on the date of issuance. The Company recorded \$27,000 of consultant fees in connection with such issuance.

On April 5, 2013, the Company issued 21,509,222 shares of common stock to an investment banker for services received. The shares are fully vested on the date of issuance. The Company recorded \$80,000 of consultant fees in connection with such issuance.

**During the year ended December 31, 2012, the Company recorded the following transactions:**

### **Debt**

During the year ended December 31, 2012, the Company issued a total of 158,491,010 shares of common stock upon the requests from multiple convertible note holders to convert their notes plus accrued interest totaling \$851,552 into the Company's common stock based on the terms set forth in the loan. The conversion rates were from \$0.0016 to \$0.0443.

In May 2011 the Company entered into an agreement and received a deposit of \$130,000 for the sale of one PSWS unit. Under the terms of the agreement the Company guaranteed the customer a minimum of \$37,500 of rental income under the Company's rental pool. The Company was not able to provide the customer with delivery of the unit in a timely manner. Subsequently on July 2, 2012 the Company reached an agreement with the customer to refund the deposit of \$130,000 and the \$37,500 rental income by issuing 4,187,500 shares of common stock and three year warrants with an exercise price of \$0.048. Accordingly the Company recorded a charge to operations for the guaranteed rental income of \$37,500.

On July 2, 2012, the Company issued 4,375,000 shares of common stock to a note lender in connection with a debt financing transaction. The Company recorded \$175,000 of debt discount in connection with such issuance. The debt discount will be amortized over the term of the loan.

In September, at the request of the lender, the Company converted \$100,000 of convertible notes payable to \$185,000 of notes payable. The newly issued notes payable bear interest at rates of 6% and have maturity dates in December 2012 through January 2013. The Company is required to repay the notes payable in 5 installments with the final payment of \$65,000 in January 2013. As of December 31, 2012, the company repaid \$45,337.11 principal which consist \$20,000 cash payment and \$25,337 in issuing 8,774,761 shares of common stock.

## Cash

### Through Equity Financing:

During the year ended December 31, 2012, for gross proceeds of \$412,270 the Company sold an aggregate of 51,227,383 shares of common stock and warrants to purchase additional 13,853,721 shares of common stock at exercise prices from \$0.00352 to \$0.072. The warrants have a term of three years and were fully vested on the grant date.

## Services

On January 23, 2012, the Company issued 1,000,000 shares of common stock to the Company's Chief Executive Officer per grant that was approved by the Company's Board of Directors on January 11, 2012. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$65,000 of stock-based compensation in connection with this issuance.

On January 23, 2012, the Company issued 1,000,000 shares of common stock to the Company's Chief Financial Officer per grant that was approved by the Company's Board of Directors on January 11, 2012. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$65,000 of stock-based compensation in connection with this issuance.

On January 24, 2012, the Company issued an aggregate 300,000 shares of common stock to multiple employee and contractors per grant that was approved by the Company's Board of Directors on January 11, 2012. The shares were fully vested on the date of the grant and accordingly, Company recorded \$19,500 of stock-based compensation in connection with this issuance.

On February 7, 2012, the Company issued 86,538 shares of common stock as part of the retainer fee we paid to a consultant for their services rendered. The Company recorded a \$4,500 consultant fee in connection with this issuance.

On March 2, 2012, the Company issued 100,000 shares of common stock as part of the consultant fee we paid to a consultant for services rendered. The Company recorded a \$6,400 marketing fee in connection with this issuance.

On July 27, 2012, the Company issued 187,500 shares of common stock as part of the consultant fee we paid to a consultant for services rendered. The Company recorded a \$7,500 marketing fee in connection with this issuance.

## NOTE 15 PREFERRED STOCK

The Company is authorized to issue 10,000,000 shares of preferred stock, par value \$0.001 per share, issuable in series with rights, preferences, privileges and restrictions as determined by the Company's board of directors.

At December 31, 2013, outstanding preferred stock consists of the following:

	Authorized Shares	Outstanding Shares	Par Value	Current Annual Dividend Requirement	Total Dividend Arrearage	Dividend Arrearage Per Share	Liquidation Preference (Including Dividend Arrearage)
Series A	400,000	52,500	\$ 52	\$ 52,500	\$ 990,100	\$ 17.86	\$ 1,515,100
Series B	51	—	—	—	—	—	—
Series D	2,000,000	93,000	93	55,800	975,600	9.89	1,510,350
Series F	1,000,000	38,644	39	—	190,328	—	—
		184,144	\$ 184	\$ 108,300	\$ 2,156,028		\$ 3,025,450

At December 31, 2012 outstanding preferred stock consists of the following:

	Authorized Shares	Outstanding Shares	Par Value	Current Annual Dividend Requirement	Total Dividend Arrearage	Dividend Arrearage Per Share	Liquidation Preference (Including Dividend Arrearage)
Series A	400,000	52,500	\$ 52	\$ 52,500	\$ 937,600	\$ 17.86	\$ 1,462,600
Series B	51	51	—	—	—	—	—
Series D	2,000,000	93,000	93	55,800	919,800	9.89	1,454,550
Series F	1,000,000	38,644	39	—	190,328	—	—
		184,195	\$ 184	\$ 108,300	\$ 2,047,728		\$ 2,917,150



### Series A

The Series A preferred stock provides for a 10% cumulative dividend, based on the \$10.00 per share purchase price, payable annually in common stock or cash, at the Company's option. The Series A preferred stock is not convertible, and is redeemable solely at the Company's option at a price of \$11.00 per share plus accrued dividends. The Series A preferred stockholders have voting rights equal to common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series A preferred stock are entitled to receive out of the assets of the Company the sum of \$10.00 per share of Series A preferred stock then outstanding, plus a sum equal to all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series A preferred stock as to such payment or distribution.

### Series B

On June 26, 2012 the Board of Directors of the Company designated and authorized the Series B Preferred Stock ( Series B ) as set forth in a Certificate of Designation that was filed with the Secretary of State of the State of Delaware. The Series B has a par value of \$0.001 per share, no rights to dividends but provides for liquidation rights which entitle the holder to a pro-rata share of net assets. The Series B carries no conversion provisions.

Each share of Series B Preferred has voting rights equal to (x) 0.019607 multiplied by the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the Numerator ), divided by (y) 0.49, minus (z) the Numerator entitling the holder to an aggregate 51% voting control. The Company issued 51 shares of the Series B to the Chief Executive Officer. The fair value of the shares on the date of issuance was determined to be de minimus. Subsequent to December 31, 2012 the shares were returned by the holder to the Company for no consideration and the Board of Directors approved the filing of a certificate with the State of Delaware cancelling the Series B Preferred Stock.

### Series D

The Series D preferred stock provides for a 12% cumulative dividend, based on the \$5.00 per share purchase price, payable semi-annually in common stock or cash, at the Company's option. The Series D preferred stock is not convertible, and is redeemable solely at the Company's option at a price of \$5.75 per share plus accrued dividends. The Series D Preferred stockholders have voting rights equal to the common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series D preferred stock are entitled to receive out of the assets of the Company the sum of all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any

payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series D preferred stock as to such payment or distribution.

Series F

The Series F 10% convertible preferred stock is a two-year convertible preferred instrument. All dividends are cumulative and are payable in shares of common stock valued at the then current market price per share, at the time of maturity, or upon conversion, whichever is earlier. The conversion rate for shares and accrued dividends payable is 40 shares of common stock for each share of preferred stock. The Series F convertible preferred stockholders have voting rights equal to the common stockholders. The Series F convertible preferred stock has no stated rights in the assets of the Company upon liquidation. In connection with Series F Preferred Stock conversions, the Company recorded dividends of \$0 and \$0 for each of the years ended December 31, 2013 and 2012, respectively.

**NOTE 16 STOCK WARRANTS**

The following warrants were issued by the Company in connection with Convertible Promissory Notes:

The year ended December 31, 2012	1,933,333
The year ended December 31, 2013	32,283,332

The following warrants were issued by the Company in connection with various employment and compensation agreements:

The year ended December 31, 2012	43,746,410
The year ended December 31, 2013	71,786,055



The following warrants were issued by the Company in connection with equity private placements:

The year ended December 31, 2012	13,853,721
The year ended December 31, 2013	—

The following warrants were exercised:

The year ended December 31, 2012	—
The year ended December 31, 2013	10,707,030

The following warrants were expired:

The year ended December 31, 2012	1,402,058
The year ended December 31, 2013	2,440,424

The following tables sets forth information concerning the Company's warrant issuances and warrant balances outstanding as of, and during the years ended December 31, 2013 and 2012:

Value	Shares Underlying Warrants	Weighted Average Exercise Price	Intrinsic
Outstanding at December 31, 2011	27,520,997	\$ 0.06	\$ —
Granted	59,533,464	0.01	—
Expired	(1,402,058)	0.05	—
Exercised	—	—	—
Outstanding at December 31, 2012	85,652,403	\$ 0.03	\$ —
Granted	104,069,387	0.006	—
Expired	(2,440,474)	0.09	—
Exercised	(10,707,030)	0.006	—
Outstanding at December 31, 2013	176,574,286	0.02	—

The following is additional information with respect to the Company's warrants as of December 31, 2013:

<b>Number of Warrants</b>	<b>Range of Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (In Years)</b>	<b>Average Exercise Price</b>	<b>Currently Exercisable</b>
129,078,495	\$0.003-\$0.0096	3.76	\$ 0.0051	129,078,495
44,308,863	\$0.0108-\$0.0964	1.34	\$ 0.0362	44,308,863
3,127,404	\$0.1-\$0.1884	2.62	\$ 0.1173	3,127,404
59,524	\$0.84	1.91	\$ 0.84	59,524
176,574,286				176,574,286

**NOTE 17 INCOME TAXES**

The income tax provision (benefit) consists of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Federal</b>		
Current	—	—
Deferred	5,739,800	(1,009,700)
<b>State and local</b>		
Current	—	—
Deferred	961,500	(260,300)
Change in valuation allowance	(6,701,300)	1,270,000
Income tax provision (benefit)	—	—

The reconciliation between the statutory federal income tax rate (34%) and the Company's effective rate for the year ended December 31, 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
U.S. Federal statutory rate	(34.0)%	(34.0)%
State tax benefit, net of federal tax	(5.7)	(5.7)
Sec 382 impairment of NOL carryover	258.2	-
Other permanent differences	1.8	1.5
Deferred tax true-up	(13.3)	(7.8)
Change in valuation allowance	(207.0)	46.0
Income tax provision (Benefit)	0.0%	0.0%

As of December 31, 2013 and 2012 the deferred tax asset consisted of the following:

	<b>2013</b>	<b>2012</b>
Deferred Tax Asset		
Net operating loss carryovers	\$ 3,705,200	\$ 10,939,700
Stock-based compensation	1,455,700	1,230,500
Derivative liability	82,000	32,000
Fixed asset depreciation	-	57,800
Contributions carryover	3,100	100
Accrued legal claims	173,000	-
Accrued compensation	503,100	309,100
Deferred rent	-	2,800
Total deferred tax asset	5,922,100	12,572,000
Valuation allowance	(5,838,700)	(12,540,000)
Net Deferred Tax Asset, net of valuation allowance	83,400	32,000
Deferred Tax Liability		
Convertible debt	(83,400)	32,000
Total deferred tax liability	(83,400)	32,000
Net Deferred Tax Asset (Liability)	\$ -	\$ -

As of December 31, 2013 and 2012, the Company had approximately \$9.3 million and \$23.4 million, respectively, of U.S. federal and state net operating loss carryovers available to offset future taxable income. These net operating losses which, if not utilized, begin expiring between the years 2013 through 2033. In accordance with Section 382 of the Internal Revenue Code, deductibility of the Company's net operating loss carry over may be subject to an annual limitation in the event of a change of control. The Company performed an evaluation as to whether a change of control, as defined under the regulations has taken place, and concluded that a change of control has occurred during the period ended December 31, 2013. Due to the section 382 ownership change the Company's NOL carryovers are subject to an annual limitation of approximately \$467,000. The Company's deferred tax asset related to its net

operating loss carryovers has been impaired by \$8,358,000 since this represents the tax effect of the Company's net operating loss carryovers that will expire unused due to the annual limitation as calculated under section 382.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. ASC 740 - Income Taxes requires that a valuation allowance be established when it is more likely than not that all, or a portion of, deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance as of December 31, 2013 and December 31, 2012. For the year ended December 31, 2013 and 2012 the change in deferred tax asset valuation allowance was \$(6,701,300) and \$1,270,000 respectively.

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

Interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as "Interest expense, net" in the statements of operation. Penalties would be recognized as a component of "General and administrative expenses."

No interest or penalties were recorded during the years ended December 31, 2013 and December 31, 2012 respectively. As of December 31, 2013 and December 31, 2012 no liability for unrecognized tax benefits was required to be reported. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

The Company files tax returns in U.S. federal and various state jurisdictions and is subject to audit by tax authorities beginning with the year ended December 31, 2010.

#### **NOTE 18 SUBSCRIPTIONS RECEIVABLE**

In April 2008, a consultant for the Company, entered into Stock Purchase, Loan and Security Agreements with the Company. Under the agreements, the Company loaned the individual \$337,200. The obligations to repay the loans were evidenced by non-recourse promissory note. The note called for interest at a rate of 6% per annum and matured on April 16, 2011, at which time there was a three year extension granted. The loaned funds were to be used exclusively for the purchase of 4 million shares of the Company's Common Stock. The stock is being held as collateral for the repayment of the loan. The purchase price of the stock was based on the average closing price of the Common Stock during the 30 trading days immediately preceding the date of the April 2008 agreements which equaled \$0.0843. During the fourth quarter of 2013 the subscription receivable along with accrued interest in the aggregate amount of \$446,156 was written off.

#### **NOTE 19 CREDIT RISK**

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

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

## **NOTE 20 SUBSEQUENT EVENTS**

On December 31, 2013 Gerard Stoehr s contract as Chief Operating Officer expired and was not renewed by the Company. The Company owes Mr. Stoehr \$60,000 which has been accrued for as of December 31, 2013.

Terry R. Lazar, Chief Financial Officer of the Company and a Director resigned on February 14, 2014 as Chief Financial Officer and from the Company s Board of Directors.

Effective March 7, 2014, Theresa Bischoff resigned as a Director of the Company.

Effective March 7, 2014 Dr. Stephen E. Flynn resigned as a Director of the Company.

On April 2, 2014, the Company Board of Directors elected Stephen M. Hicks to the Board of Directors, to fill a vacancy on the Board, and as President of the Company. Mr. Hicks is the Chief Executive Officer of Southridge LLC ( Southridge. ) Southridge and its affiliates have financed the Company in the past and continue to own debt and equity securities of the Company. New directors, who are not officers, are paid \$12,500 per year in cash or stock.

On April 2, 2014, the Company Board of Directors elected Mr. Gilbert Steedley to the Board to fill a vacancy on the Board. Mr. Steedley is currently interim Chief Executive Officer and Director of Accelpath, New York, N.Y. Compensation is as indicated above for Mr. Hicks.

On April 2, 2014, the Company elected Henry Sargent as Vice President and Secretary of the Company. Mr. Sargent is Chief Operating Officer and General Counsel of Southridge.

### **Issuance of Common Stock**

From January 1, 2014 until October 23, 2014, the Company converted a total of \$219,620 loan principal plus \$24,850 accrued interest and fees into 414,812,709 shares of common stock.

On March 13, 2014, a warrant holder exercised 625,000 warrants at exercise price of \$0.0025. The holder elected their cash-less exercise provision. Accordingly, the Company issued 526,315 shares of common stock in connection with such exercise.

On August 27, 2013 the Company received proceeds of \$10,500 for the exercise of 1,093,750 warrants and as of December 31, 2013 the shares had not been issued and accordingly the Company recorded the liability for the share issuance. On August 19, 2014, due to the decline in market price of our stock, the Company issued the warrant holder 9,545,455 shares.

On July 9, 2013 the Company received proceeds of \$27,923 for the exercise of 2,389,817 warrants and as of December 31, 2013 the shares had not been issued and accordingly the Company recorded the liability for the share issuance. On August 19, 2014, due to the decline in market price of our stock, the Company issued the warrant holder 27,202,727 shares.

On January 8, 2014, the Company issued 13,265,625 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$47,756 of interest expense for such issuance.

On July 1, 2014, the Company issued 7,634,921 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$12,979 of interest expense for such issuance.

On September 15, 2014, the Company issued 7,027,778 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$4,919 of interest expense for such issuance.

### **Issuance of Promissory Notes**

On January 15, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on January 15, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On January 23, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on January 23, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On January 23, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on January 23, 2015. A UCC was issued on the system operating at the Landfill as security for the Note.

On February 4, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on February 4, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On February 20, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on February 20, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On February 20, 2014 a Promissory Note was issued to a lender in the amount of \$ 7,500. The Note bears no interest and matures on February 20, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On February 20, 2014 a Promissory Note was issued to a lender in the amount of \$ 7,500. The Note bears no interest and matures on February 20, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On April 25, 2014 the Company issued a promissory note for \$ 100,000. The note matures on April 30, 2015 with the stated interest rate at 8%.



F-35

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### **Issuance of Convertible Promissory Notes**

On April 4, 2014 the Company issued a convertible promissory note for \$ 50,000 to a related party. The note matures in one year from the issuance date with the stated interest rate at 0%. The note is convertible into the Company's common stock at a 40% discount of the lowest closing bid price during the 30 trading days prior to conversion.

On April 21, 2014 the Company issued a convertible promissory note to a related party for \$2,500. The note matures on April 30, 2015 with the stated interest rate at 0%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.

On June 19, 2014 the Company issued a convertible promissory note for \$ 100,000. The note matures on December 31, 2014 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.0019 per share. In addition, 10,526,316 warrants were issued with an exercise price of \$0.00228 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

On July 17, 2014 the Company issued a convertible promissory note for \$ 23,000. The note matures on June 30, 2015 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.001 per share. In addition, 4,600,000 warrants were issued with an exercise price of \$0.0012 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

On July 17, 2014 the Company issued a convertible promissory note for \$ 20,000. The note matures on December 31, 2015 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 10 trading days prior to conversion.

On August 13, 2014 the Company issued a convertible promissory note for \$ 85,000. The note matures on June 30, 2015 with the stated interest rate at 8%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 20 trading days prior to conversion.

On September 16, 2014 the Company issued a convertible promissory note for \$ 23,000. The note matures on June 30, 2015 with the stated interest rate at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.0005 per share. In addition, 9,200,000 warrants were issued with an exercise price of \$0.0006 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

## Entry Into A Material Definitive Agreement

On June 13, 2014, the Company entered into a consulting agreement (the Consulting Agreement ) with Tarpon Bay Partners, LLC, a Florida limited liability company ( Tarpon ), for the period from the date of the agreement through March 31, 2015. The agreement requires Tarpon to provide general management and consulting services and advisory services to the Company, including assistance in connection with the restructuring of its outstanding debt and equity securities. The manager of Tarpon is Stephen Hicks, the President of the Company.

Pursuant to the terms of the Consulting Agreement, Tarpon will be compensated by the issuance to it by the Company of shares of Series H Convertible Preferred Stock. Pursuant to the terms of the Consulting Agreement, Tarpon will receive Series H Preferred Stock with a stated value of \$425,000 upon the execution of the Agreement, and additional Series H Preferred Stock with a stated value of \$75,000 monthly, commencing July 1, 2014 and continuing through the balance of the term. The execution and delivery of the Consulting Agreement was approved by the directors of the Company. Mr. Hicks did not participate in the vote on this matter.

On June 13, 2014, the Company entered into an Equity Purchase Agreement with an accredited investor. The terms of the Equity Purchase Agreement provide that the Investor agrees, subject to put notices from the Company, to purchase up to \$5,000,000 in Common Stock during the 24 months following the execution of the Agreement, subject to certain conditions and limitations. For each closing, the purchase price of the Common Stock will be 90% of the average of the three lowest Closing Bid Prices during the 10 trading days following the relevant Clearing Date (as defined in the Equity Purchase Agreement). In connection therewith, the Company also entered into a Registration Rights Agreement with the investor, pursuant to which the Company is required to file a Registration Statement with the Securities and Exchange Commission for the expected number of shares to be issued under the Equity Purchase Agreement within 120 days of the date of the Registration Rights Agreement. The Investor also provided the Company with a one year loan of \$100,000; the obligation to repay this loan is represented by a Promissory Note issued by the Company to the Investor.

### **Series A and Series F Preferred Stock**

On June 3, 2014, the Company filed with the Secretary of State of the State of Delaware Certificates of Correction to its existing Certificates of Designations for its Series A and Series F Preferred Stock, respectively. These filings reduced the number of authorized shares of the Company's Series A Preferred Stock from the previously reported 400,000 shares to 52,500 shares and the number of authorized shares of the Series F Preferred Stock from the previously reported 1,000,000 shares to 38,644 shares. In each case, the current number of outstanding shares (as of the date of filing of each Certificate of Correction, 2014) of the relevant Series is not more than the number of authorized shares specified in the corresponding Certificate of Correction.

### **Series G Preferred Stock**

On June 13, 2014, the number, designation, rights, preferences and privileges of the Series G Preferred Stock were established by the Board. The designation, rights, preferences and privileges that the Board established for the Series G Preferred Stock are set forth in a Certificate of Designations that was filed with the Secretary of State of the State of Delaware on June 17, 2014. Among other things, the Certificate of Designation provides that each one share of Series G Preferred has voting rights equal to (x) (i) 0.019607 multiplied by the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the number determined by this clause (i), the Numerator), divided by (ii) 0.49, minus (y) the Numerator. These voting rights apply only to matters of Company capitalization (i.e. increase in authorized common stock, stock splits, etc.), and similar matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent. The Series G has a par value of \$0.001 per share, no rights to dividends but provides for liquidation rights which entitle the holder to a pro-rata share of net assets. Each Series G share is convertible, at the option of the holder, into one share of Common Stock. The Company issued 51 shares of the Series G to the President.

### **Material Modification to Rights of Security Holders**

By unanimous written consent of the Board (Mr. Hicks not participating), the Board authorized the filing of a Certificate of Designation for its Series G Convertible Preferred Stock (Series G Preferred Stock) and the issuance of all of the fifty-one (51) authorized shares of such Series G Preferred Stock to Stephen Hicks (the Series G Stockholder) for a purchase price of \$1 per share. As a result of the voting rights granted to the Series G Preferred Stock in the Certificate of Designations, the Series G Stockholder holds in the aggregate approximately 51% of the total voting power of all issued and outstanding voting capital of the Company. Pursuant to the terms of the Board resolution authorizing the issuance of the Series G Preferred Stock, and authorizing the issuance of the shares to Mr. Hicks, the Company has the right to redeem said Preferred Stock of the Company upon his resignation or the termination of his services as President of the Company. The Company believes that the issuance of the Series G Preferred Stock to Mr. Hicks will facilitate the Company's ability to manage its affairs.

## **Series H Preferred Stock**

On June 13, 2014, the number, designation, rights, preferences and privileges of the Series H Preferred Stock were established by the Board. The designation, rights, preferences and privileges that the Board established for the Series H Preferred Stock are set forth in a Certificate of Designations that was filed with the Secretary of State of the State of Delaware on June 17, 2014.

The Certificate of Designations for the Series H Preferred Stock provides for the issuance of up to 1,000 shares of Series H stock with a stated value of \$25,000 per share. As long as any shares of Series H Preferred Stock remain outstanding, the Company cannot, without the consent of the holders of at least 90% of the Series H Preferred Stock, redeem, repurchase or otherwise acquire any junior securities, or pay or make any distribution upon any junior securities as defined therein.

The Series H Preferred Stock is convertible at the option of the holder into such number of shares upon the conversion ratio equal to the aggregate stated value of the Series H Preferred Stock converted divided by the average closing bid price for the calendar month preceding the original issuance date of the shares being converted, as reported by the reporting service. The Company is required to reserve a sufficient number of shares of common stock as may be required to be issued thereunder. The conversion ratio is subject to adjustment, from time to time, for various reasons including a sale or merger by the Company.

With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series H Preferred Stock shall vote together with the holders of Common Stock without regard to class, except as to those matters on which separate class voting is required by applicable law or the Articles of Incorporation or bylaws.

On September 30, 2014 the Company entered into an agreement in-order to satisfy an outstanding liability of the Company to our former Vice President of International Markets, Shaul Kochan, dating back to 2009. Per the terms of the agreement the Company shall issue 110 shares of preferred stock with a stated value equal to \$110,000. The Company has agreed to redeem the preferred stock in 14 separate tranches at the beginning of each calendar month beginning October 1, 2014, pursuant to the following schedule: \$5,000 in stated value worth of shares each month for the first 4 months; \$7,500 in stated value worth of shares each month for the subsequent 6 tranches; \$10,000 in stated value worth of shares each month for the subsequent 3 tranches; and \$15,000 in stated value worth of shares in the final month.

If the Company misses payment of any tranche it will have 30 calendar days in which to cure such payment, after which time the Company agrees to issue additional shares of preferred stock representing 1% of the aggregate stated value of the then outstanding preferred stock held by Mr. Kochan, redeemable under similar terms.

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

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have each reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934), as of December 31, 2013. Based on such review and evaluation, our chief executive officer and chief financial officer have concluded that, as of December 31, 2013, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission pursuant to the reporting obligations of the Exchange Act, including this Annual Report on Form 10-K, is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

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

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers,

and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States ( US GAAP ), including those policies and procedures that:

.  
pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company,

.  
provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company, and

.  
provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Under the supervision and with the participation of our management, we have assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the 1992 criteria described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Due to the inherent issue of segregation of duties in a small company, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties. Based on this assessment and those criteria, our management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2013.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. Our management identified the following material weaknesses as of December 31, 2013:





Entity Level. We recognize the need to provide leadership and guidance to our employees regarding the maintenance and preparation of financial matters. There is a weakness due to the fact that there are no documented policies and procedures in place for certain procedures. An audit committee has not been established.

Financial Reporting. There needs to be a more structured mechanism for evidence of review in the financial reporting process. The following procedures have been implemented since the beginning of 2009, (a) CFO signs and date all financial documents upon the completion of reviewing such documents, (b) all approval or permission will be evidenced by either email or in writing. No oral approval or permission is allowed, (c) General Journal is recorded only after CFO approves (in writing) such entry and (d) monthly bank reconciliations must complete within 15 days after month ends and reviewed by CFO 5 days after the completion of bank reconciliation.

Confidential Reporting Mechanism. We recognize that we need to provide leadership and guidance to our employees, clients and vendors regarding business ethics and professional conduct. A confidential reporting mechanism must be in place for anonymous reporting of a breach to these ethics that will enable prompt and thorough investigation. In January 2009, we implemented a whistleblower program. A toll-free number, as well as an email address, were posted on the homepage of our website to encourage our employee, contractors, sub-contractors, vendors to report any unethical or illegal behavior they suspect.

The entire staff consists of three officers, one Controller and one receptionist. Therefore, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties. Upon receiving adequate financing the Company plans to increase its controls in these areas by hiring more experienced employees in financial reporting, establishing an audit committee and formally documenting the controls the Company has in place.

### **Attestation Report**

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only our management's annual report on internal control over financial reporting in this Form 10-K.

### **Changes in Internal Controls Over Financial Reporting**

There were no changes in our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None

**PART III****Item 10. Directors, Executive Officers and Corporate Governance.****Directors and Executive Officers**

The following table sets forth the names and positions of our current executive officers and directors.

<b>Name</b>	<b>Age</b>	<b>Principal Positions and Offices with our Company</b>	<b>Director Since</b>
Leslie J. Kessler	66	Chief Executive Officer and Chairman	2007
Stephen M. Hicks	55	President and Director	2014
Gilbert Steedley	48	Director	2014
Henry Sargent	47	Vice President and Secretary	2014

On April 2, 2014, our Board of Directors elected Stephen M. Hicks, to our Board of Directors, to fill a vacancy on the Board, and as President of the Company. Mr. Hicks is the Chief Executive Officer of Southridge LLC ( Southridge ), which has financed the Company in the past and continues to own debt and equity securities of the Company. Our Board also on the same date elected Gilbert Steedley as a director of the Company, to fill a vacancy on the Board of Directors, and elected Henry Sargent as Vice President and Secretary of the Company. Mr. Sargent is the Chief Operating Officer and General Counsel of Southridge.

Set forth below is a brief description of the background of each of our current directors and executive officers, based on information provided to us by them.

**Leslie J. Kessler** was retained as our President in January 2007 and was appointed our Chief Executive Officer and elected as a member of our board of directors in February 2007. Since 1994, Ms. Kessler has served as President of LIK Capital, which specializes in consulting and assisting companies with financing their growth and development. In 1996, Ms. Kessler co-founded CPC of America, Inc., a development stage publicly-traded company developing cardiologic and other medical devices, where she served as corporate secretary and a director from 1996 to 1998. Ms. Kessler holds BA degrees in psychology and elementary education and an MA degree in elementary education from Hofstra University.

**Stephen M. Hicks**, age 55, is the Chief Executive Officer and founding principal of Southridge LLC. Mr. Hicks sets the overall strategic direction for the Southridge group of companies, and is responsible for business development and execution. Mr. Hicks founded Southridge in 1996. Active in the investment industry for over 25 years, Mr. Hicks has broad experience in financial structuring, derivatives, risk arbitrage, and investment banking. He received his BS in Business Administration from King's College in Briarcliff Manor, New York, and an MBA from Fordham University, in New York City. On October 25, 2010, the SEC filed a lawsuit in the United States District Court for Connecticut against Southridge Advisors and Mr. Hicks alleging, among other things, that a position in previously managed funds were overvalued and that such conduct as well as other matters amounted to violations of Section 17(a) of the Securities Act, Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, and Sections 206(1), 206(2) and 206(4) of the Investment Advisers Act and Rule 206(4)-8 thereunder. The lawsuit seeks injunctive relief and monetary penalties.

**Gilbert Steedley** is currently, and since June 21, 2013 has been, the interim Chief Executive Officer and a director of AccelPath, New York, New York. He is the founder of INU, which provides small cap public/private companies with capital market intelligence. Mr. Steedley has over twenty years of business development, industry research, and corporate finance experience across a diverse range of industries, including, and at the forefront, the energy industry. Mr. Steedley has a close link with Wall Street operations, having served as a Senior Vice President of Business Development for Able Global Partners, a New York City based merchant bank; Director of Issuer Services and a Director of Equities Business Development with the American Stock Exchange (AMEX) and Senior Research Analyst of Issuer Services with NASDAQ. In his role at AMEX, Mr. Steedley worked with clients concerning listing requirements on the exchange. Mr. Steedley has served on several boards of directors including those of oil and gas companies.

Mr. Steedley received a Bachelor of Science in Finance degree from Mercy College, New York and a Master of Business Administration degree from Delaware State University, Delaware. In addition, he attended an Executive Education Program in Oil and Gas Investing at SMU-COX Texas. He has produced articles on investment styles and strategies that were published in Forbes Magazine.

**Henry Sargent**, JD, CFA, age 47, is Southridge's Chief Operating Officer and General Counsel. His responsibilities include investment selection, deal structuring and monitoring, workouts, and reorganization. Prior to joining Southridge in 1998, Mr. Sargent spent several years at a New York-based corporate and securities law firm, specializing in private placements, venture capital financing, and corporate reorganizations. He received a BA from Connecticut College and his JD from Fordham University School of Law, NY. Mr. Sargent is a member of the New York Bar Association, the CFA Institute, and the New York Society of Security Analysts.

## **Corporate Governance**

Our board of directors has determined that Gilbert Steedley is "independent" within the meaning of the applicable rules of the SEC and The New York Stock Exchange.

### *Audit Committee.*

Our Board of Directors plans to establish an Audit Committee, the members of which shall be considered as independent under the standards for independence for audit committee members established by the NYSE. The Audit Committee will operate under a written charter.

### *Other Committees.*

Our Board of Directors performs the functions usually designated to an Audit Committee. We intend shortly to establish an Audit Committee with one or more independent directors.

The Board does not have standing compensation or nominating committees. Our Board plans to evaluate on an ongoing basis the need for establishing a compensation committee and/or a nominating committee, and it plans to so at the appropriate time.

The entire Board of Directors participates in the consideration of compensation issues and of director nominees. To date, the Board of Directors has not formally established any criteria for Board membership. Candidates for director nominees are reviewed in the context of the current composition of the Board, the Company's operating requirements and the long-term interests of its stockholders. In conducting this assessment, the Board of Directors considers skills, diversity, age, and such other factors as it deems appropriate given the current needs of the Board and the Company, to maintain a balance of knowledge, experience and capability. In particular, weight is given to experience relevant to

the Company's operations in the water purification industry and familiarity with international business issues.

The Board's process for identifying and evaluating nominees for director, including nominees recommended by stockholders, involves compiling names of potentially eligible candidates, conducting background and reference checks, conducting interviews with the candidate and others (as schedules permit), meeting to consider and approve the final candidates and, as appropriate, preparing an analysis with regard to particular recommended candidates.

#### *Board Role in Risk Oversight*

Our Board has overall responsibility for risk oversight with a focus on the most significant risks facing our Company. Not all risks can be dealt with in the same way, and it is the Board's responsibility to evaluate the potential adverse impact of risks faced by the company and the resources allocated to avoid or mitigate the potential adverse impact.

#### *Risk Assessment in Compensation Programs*

The responsibility of the Board is to assess the Company's compensation programs to identify potential risks arising from the Company's compensation policies and practices that are reasonably likely to have a material adverse effect on the Company.

### *Stockholder Communications*

The Board has not established a formal process for stockholders to send communications, including director nominations, to the Board; however, the names of all directors are available to stockholders in this Information Statement. Any stockholder may send a communication to any member of the Board of Directors, in care of the Company, at 35 East Mall, Plainview, New York 11803 (Attention: Secretary). Director nominations submitted by a stockholder will be considered by the full Board. Each communication should clearly specify the name of the individual director or group of directors to whom the communication is addressed. Communications sent by email will be delivered directly to the Corporate Secretary, who will promptly forward such communications to the specified director addressees. Communications sent by mail will be promptly forwarded by the Corporate Secretary to the specified director addressee or, if such communication is addressed to the full Board of Directors, or to the Chairman of the Board (when one is appointed), who will promptly forward such communication to the full Board of Directors. Due to the infrequency of stockholder communications to the Board, the Board does not believe that a more formal process is necessary. However, the Board will consider, from time to time, whether adoption of a more formal process for such stockholder communications has become necessary or appropriate.

In general, advance notice of nominations of persons for election to our Board or the proposal of business to be considered by the shareholders must be given to our Secretary no earlier than the October 1 or later than December 1 preceding the next year's annual meeting, which would be scheduled in the month of May or June.

A shareholder's notice of nomination should set forth (i) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director, if elected); (ii) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (A) the name and address of such shareholder, as they appear on our books, and of such beneficial owner, (B) the number of shares of our common stock that are owned (beneficially or of record) by such shareholder and such beneficial owner, (C) a description of all arrangements or understandings between such shareholder and such beneficial owner and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder and of such beneficial owner in such business, and (D) a representation that such shareholder or its agent or designee intends to appear in person or by proxy at our annual meeting to bring such business before the meeting.

### **Director Compensation**



We have set forth below compensation earned by any person serving as a non-executive director of our company during our fiscal year ended December 31, 2013, unless such person is also listed in the Summary Compensation Table set forth in the Executive Compensation subsection above. On May 26, 2010, the Board of Directors approved annual board compensation, effective July 1, 2010, to be \$50,000 to be paid in shares quarterly and the number of shares would be valued at the beginning of each quarter.

On December 6, 2011, effective January 1, 2012, the Board approved to replace directors annual compensation of \$50,000 with three year warrants payable quarterly, which compensation policy was terminated for periods following the fiscal quarter ended March 31, 2014.

	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards</b>	<b>Option Awards</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings</b>	<b>All Other Compensation</b>	<b>Total</b>
<b>Name</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Stephen E. Flynn	–	–	34,800	–	–	–	34,800
Theresa Bishoff	–	–	34,800	–	–	–	34,800

Our directors, as compensation for service on our Board of Directors in fiscal 2013, were compensated in three quarterly installments each issued three-year warrants to purchase an aggregate of 4,842,162 shares of common stock, at exercise prices ranging from \$0.0039 to \$0.0185. The directors' compensation for services on the Board of Directors in the 2013 fourth quarter was not paid in 2013.

*Other Information about our Board of Directors*

During our fiscal year ended December 31, 2013, our Board of Directors met four times and acted by written consent one time.

We do not have a formal policy on attendance at meetings of our shareholders; however, we encourage all Board members to attend shareholder meetings that are held in conjunction with a meeting of our Board of Directors. In fiscal 2013, every director attended at least 75 percent of the meetings of the Board and the committees on which he or she served held during his or her time of service.

*Attendance of Directors at Shareholder Meetings*

We do not have a formal policy on attendance at meetings of our shareholders

**Section 16(a) Compliance by Officers and Directors**

Based solely upon a review of Forms 3, 4 and 5 and amendments to these forms furnished to us, together with written representations received by us from applicable parties that no Form 5 was required to be filed by such parties, all parties subject to the reporting requirements of Section 16(a) of the Exchange Act filed all such required reports during and with respect to our fiscal year ended December 31, 2013, with the following exceptions:

During 2013, the four directors of the Company, Leslie Kessler, Terry R. Lazar, Dr. Stephen Flynn and Theresa Bishoff, were issued common stock purchase warrants as directors fees on January 17, April 5, July 1 and October 1 2013, and these directors (not including Ms. Bishoff) filed late Form 4's for the January 17 and April 5, 2013 warrant issuances on February 20 and May 14, 2013, respectively. As of the date of this report, these directors had not filed Form 4's for the July 1, 2013 directors' warrant issuances. Theresa Bishoff was elected to the Company's Board of Directors on January 7, 2013 and, as of the date of this report, Ms. Bishoff had not filed a Form 3 with respect to her election as a director, nor any of the four Form 4's due with respect to 2013 directors' warrant issuances.

On February 20, 2013, Leslie Kessler and Terry Lazar filed late Form 4 s with respect to stock and warrant compensation issuances to each of them on February 11, 2013.

### **Code of Ethics**

On June 13, 2014, our board of directors adopted a revised Code of Ethics designed to deter wrongdoing and promote honest and ethical conduct, full, fair and accurate disclosure, compliance with laws, prompt internal reporting and accountability to adherence to the Code of Ethics. Our Code of Ethics applies to all of our employees and directors, including our Chief Executive Officer, Chief Financial Officer and Controller. This Code of Ethics was filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.

### **Item 11. Executive Compensation.**

#### **General**

The following table sets forth, with respect to our fiscal years ended December 31, 2013, 2012 and 2011, all compensation earned by or paid to all persons who served as our chief executive officer at any time during our fiscal year ended December 31, 2013 and certain other executive officers, including our Chief Financial Officer and Chief Operating Officer.

## SUMMARY COMPENSATION TABLE

	<b>Fiscal Year</b>	<b>Salary</b>	<b>Stock Awards</b>	<b>Option Awards</b>	<b>All Other Compensation</b>	<b>Total</b>
Leslie J. Kessler, Chief Executive Officer <sup>(1)</sup>	2013	\$ 180,000	\$ 97,500	\$ 126,000	–	\$ 403,500
	2012	210,000	65,000	109,840	–	384,840
	2011	180,000	339,000	–	–	519,000
Terry R. Lazar, Chief Financial Officer <sup>(2)</sup>	2013	150,000	65,000	95,600	–	310,600
	2012	180,000	65,000	109,840	–	354,840
	2011	140,400	339,000	128,300	–	607,700
Gerard Stoehr, Chief Operating Officer <sup>(3)</sup>	2013	145,385	–	–	–	–
	2012	208,615	–	14,600	–	223,215
	2011	139,615	–	26,500	–	166,115

(1)

Ms. Kessler was appointed our President in January 2007 and Chief Executive Officer in February 2007. From May 2006 to January 2007, she was an outside consultant to our company. The amounts reflected in the table constitute the total compensation earned by Ms. Kessler during the subject fiscal years, whether or not actually paid to her. Ms. Kessler elected to defer \$162,692 and \$97,500 from her 2012 and 2011 salary, respectively. In 2011, Ms. Kessler was awarded 3,000,000 shares of our common stock. We recorded \$339,000 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table.

In 2012, Ms. Kessler was awarded 1,000,000 shares of our common stock. We recorded \$65,000 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In addition, in 2012, Ms. Kessler was also awarded warrants to purchase 15,000,000 shares of our common stock at exercise price of \$0.006 per share. We recorded \$72,900 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In 2012, Ms. Kessler received warrants to purchase 1,805,119 shares of our common stock at exercise price of \$0.013 to \$0.058 per share as the Directors Fees that were approved by the Board of Director on December 6, 2011, when the Board approved to replace directors annual compensation of \$50,000 with three year warrants payable quarterly.

On March 18, 2013, the Company issued to Ms. Kessler 15,000,000 shares of common stock and rights to purchase additional 15,000,000 shares of common stock at the exercise price of \$0.0033 per shares. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrant has term of five year. The Company recorded \$188,700 stock-based compensation which includes \$97,500 for the shares issuance and \$91,200 for the warrants granted. We recorded a total of \$34,800 as director fees warrant compensation issuances and have included such amount in the Summary Compensation Table.

(2)

Mr. Lazar was appointed Chief Financial Officer and a director of our company in September 2007 and resigned from these positions in February 2014. The amounts reflected in the table constitute the total compensation earned by Mr. Lazar during the subject fiscal years, whether or not actually paid to him. Mr. Lazar elected to defer \$129,150 and \$76,050 from his 2012 and 2011 salary, respectively. In 2011, Mr. Lazar was awarded 3,000,000 shares of our common stock and was also awarded warrants to purchase 2 million shares of our common stock at exercise price of \$0.07 per share. We recorded \$339,000 and \$128,300 in stock-based compensation in connection with these awards and have included such amount in the Summary Compensation Table. In 2012, Mr. Lazar was awarded 1,000,000 shares of our common stock. We recorded \$65,000 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In addition, in 2012, Mr. Lazar was awarded warrants to purchase 15,000,000 of our common stock at exercise price of \$0.006 per share. We recorded \$72,900 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In 2012, Mr. Lazar received warrants to purchase 1,805,119 shares of our common stock at exercise price of \$0.013 to \$0.058 per share as the Directors Fees that was approved by the Board of Director on December 6, 2011, when the Board approved to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. We recorded a total of \$36,940 as director fees warrant compensation issuances and have included such amount in the Summary Compensation Table.

On March 18, 2013, the Company issued Mr. Lazar 10,000,000 shares of common stock and rights to purchase additional 10,000,000 shares of common stock at the exercise price of \$0.0033 per shares. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrant has term of five years. The Company recorded \$125,800 stock-based compensation which includes \$65,000 for the shares issuance and \$60,800 for the warrants granted. We recorded a total of \$34,800 as director fees warrant compensation issuances in 2013 and have included such amount in the Summary Compensation Table

(3)

Mr. Stoehr was appointed Chief Operating Officer of the Company effective January 1, 2011. The amounts reflected in the table constitute the total compensation earned by Mr. Stoehr during the subject fiscal years, whether or not actually paid to him. \$60,000 from Mr. Stoehr 2012 salary has been deferred. In 2012, Mr. Stoehr was also awarded warrants to purchase 3,500,000 shares of our common stock at exercise price of \$0.006 per share. We recorded \$14,600 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table.

### **Employment Agreements/Arrangements with Executive Officers**

In connection with our retention of Leslie J. Kessler, our President and Chief Executive Officer, as an employee in January 2007, we established her base compensation at \$9,000 per month, issued to her 2 million shares of our common stock, with a fair value of \$220,000, and granted her warrants to purchase an additional 2 million shares of our common stock. The warrants are exercisable at \$0.11 per share, have a term of three years, vest over two years and were valued at \$125,200. These warrants were valued using the Black-Scholes option valuation model and are charged to operations over the vesting period. We amended the terms of her warrants in September 2007 to permit cashless exercise.

In April, 2008, we entered into an employment agreement with Leslie J. Kessler, our President and Chief Executive Officer, pursuant to which she is to receive a base salary of \$108,000 per year. Under Ms. Kessler's 2008 employment agreement, we are obligated to provide her with fully paid accident and health insurance for her and her family and pay her an automobile allowance of up to \$1,000 per month, plus reimburse her for the expense of insurance, fuel and maintenance of the automobile. Ms. Kessler's employment agreement provides that, if there is a change in control, of our company (as defined in the agreement) and she is terminated within one year following such change in control, we are obligated to pay her an amount equal to \$9,000 multiplied by the greater of (a) twelve or (b) the number of months remaining under the agreement. In addition, upon a change in control, all of her then outstanding options and warrants will become fully vested and any restriction on any common stock previously awarded to her will lapse. Ms. Kessler's employment agreement also provides for payments to her in the event of her termination other than for cause, on account of her death or on account of her disability. Ms. Kessler's employment agreement contains confidentiality, non-competition, non-solicitation and work product provisions. Ms. Kessler's employment agreement has a stated term of five years with provisions for automatic one-year-extensions if neither party elects to terminate the agreement at least 90 days prior to the renewal date. In connection with our retention of Terry R. Lazar, our Chief Financial Officer, in September 2007, we established his base compensation at \$5,000 per month, and, in December 2007, issued to him

1 million shares of our common stock and granted him warrants to purchase an additional 1 million shares of our common stock. The fair value of our common stock on the date of issuance of such 1 million shares was \$0.04 per share and we recorded a charge of \$40,000 as stock based compensation in connection with such stock issuance. The warrants are exercisable at \$0.07 per share, have a term of three years, vest over two years and were valued at \$25,100. The warrants were valued using the Black-Scholes option valuation model and are charged to operations over the vesting period. The warrants permit cashless exercise.

On February 1, 2010, the Board of Directors of the Company approved new Employment Agreements with Leslie J. Kessler, our Chief Executive Officer, and Terry R. Lazar, our former Chief Financial Officer. The Employment Agreements are effective January 1, 2010, for initial terms of five years, and the term is automatically extended for additional one year periods if neither party gives notice of termination at least 90 days prior to the end of the initial term or any current additional one year term.

The Employment Agreement with Ms. Kessler provides for a base salary of \$180,000 per year for 2010, 2011 and \$210,000 per year in 2012. Both Employment Agreements provide for incentive payments as established by the Board of Directors and for a performance bonus as follows:

<b>Net Operating Profit Before Income Taxes Bonus</b>	<b>Performance</b>
On the First \$10 Million	0%
On the Next \$40 Million	3.5%
On the Next \$50 Million	2.5%
On all Amounts Over \$100 Million	1.5%

Both Employment Agreements contain similar provisions for discharge for "cause", including breach of the Employment Agreement or specified detrimental conduct by the employee, in which cases accrued compensation would payable as provided in the Employment Agreements. The Agreements also provide for termination by the executives for good reason, comprising events such as breach of the Agreement by the Company, assignment of duties inconsistent with the Executive's position, transfer of the executive's primary office by more than 25 miles from Plainview, New York, or in the event of a change in control of the Company. In the event of a termination by the Company without cause, or by the executive for good reason, the Company is required to pay to the Executive in a lump sum in cash within 30 days after the date of termination the aggregate of the following amounts:

A.

the sum of (1) the executive's annual minimum salary through the date of termination to the extent not theretofore paid, (2) any annual incentive payment earned by the executive for a prior period to the extent not theretofore paid and not theretofore deferred, (3) any annual performance bonus payment earned by the executive for a prior period to the extent not theretofore paid and not theretofore deferred, (4) any accrued and unused vacation pay and (5) any business expenses incurred by the executive that are unreimbursed as of the date of termination;

B.

The product of (1) the performance bonus payment and (2) a fraction, the numerator of which is the number of days that have elapsed in the fiscal year of the Company in which the date of termination occurs as of the date of termination, and the denominator of which is 365;

C.



the amount equal to the sum of (1) three (3) times the executive's annual minimum salary; (2) one (1) times the performance bonus payment and (3) one (1) times the incentive payment;

D.

In the event executive is not fully vested in any retirement benefits with the Company from pension, profit sharing or any other qualified or non-qualified retirement plan, the difference between the amounts executive would have been paid if he or she had been vested on the date his/her employment was terminated and the amounts paid or owed to the executive pursuant to such retirement plans; and

E.

The product of (1) the incentive payment and (2) a fraction, the numerator of which is the number of days that have elapsed in the fiscal year of the Company in which the date of termination occurs as of the date of termination, and the denominator of which is 365.

In addition all stock options and warrants outstanding as of the date of termination and held by the executive shall vest in full and become immediately exercisable for the remainder of their full term; all restricted stock shall no longer be restricted to the extent permitted by law, and the Company will use its best efforts, at its sole cost to register such restricted stock as expeditiously as possible; and for the remainder of the executive's life and the life of his/her spouse, the Company is required to provide the executive continued health care benefits. The executive is responsible for the payment of any COBRA premium, provided that the Company is required to make a lump sum payment to the executive equal to the cost of such premiums, plus an income tax gross-up thereon so that the executive retains an amount equal to the cost of such premiums. The Company in addition beyond the COBRA period is required to pay the executive a lump sum cash amount equal to the present value of the cost of premiums for health care coverage as a supplement to Medicare benefits under an individual policy from a third party insurer, with such insurer to be selected by the executive (which coverage in combination with Medicare benefits shall provide benefits to the executive and/or his/her spouse which are comparable to those provided to executive and/or his/her spouse under the Company's group health plan as of January 1, 2010) for the remainder of each of the lives of the executive and/or his/her spouse.

Generally, if an Employment Agreement is terminated by reason of death or disability of the executive, the Company is required to pay to the executive or his/her estate accrued salary and bonus obligations, pro-rata incentive compensation, accrued equity benefits and COBRA and retiree health benefits to the executive and/or the executive's spouse.

To the extent any payment under the Employment Agreement to the executive is subject to the excise tax imposed by section 4999 of the Internal Revenue Code, the executive is entitled to a gross-up payment from the Company to reimburse the executive for additional federal, state and local taxes imposed on executive by reason of the excise tax and the Company's payment of the initial taxes on such amount. The Company is also required to bear the costs and expenses of any proceeding with any taxing authority in connection with the imposition of any such excise tax.

### **Outstanding Equity Awards at Fiscal Year-End**

The following tables set forth, for each person listed in the Summary Compensation Table set forth in the General subsection above, as of December 31, 2013:

.

with respect to each option award -

.

the number of shares of our common stock issuable upon exercise of outstanding options that have been earned, separately identified by those exercisable and unexercisable;

.

the number of shares of our common stock issuable upon exercise of outstanding options that have not been earned;

.

the exercise price of such option; and

.

the expiration date of such option; and

.

with respect to each stock award -

.  
the number of shares of our common stock that have been earned but have not vested;

.  
the market value of the shares of our common stock that have been earned but have not vested;

.  
the total number of shares of our common stock awarded under any equity incentive plan that have not vested and have not been earned; and

.  
the aggregate market or pay-out value of our common stock awarded under any equity incentive plan that have not vested and have not been earned.

*Option Awards*

Name	Equity Incentive Plan Awards:			Option Exercise Price	Option Expiration Date
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Number of Securities Underlying Unexercised Unearned Options		
Leslie Kessler	3,000,000	—	—	0.041	4/17/2014
	2,000,000	—	—	0.052	3/7/2015
	15,000,000	—	—	0.006	10/25/2017
	113,636	—	—	0.0528	11/9/2014
	104,167	—	—	0.057	10/21/2015
	431,034	—	—	0.059	4/7/2015
	200,000	—	—	0.1	10/4/2015
	89,928	—	—	0.139	2/7/2016
	215,517	—	—	0.058	1/1/2015
	260,417	—	—	0.048	4/2/2015
	367,647	—	—	0.034	7/2/2015
	961,538	—	—	0.013	11/5/2015
	3,205,128	—	—	0.0039	1/11/2016
	15,000,000	—	—	0.0033	2/11/2018
	961,538	—	—	0.013	4/5/2016
	675,676	—	—	0.0185	7/1/2016
1,259,000	—	—	0.01	10/1/2016	
Terry R. Lazar (2)	3,000,000	—	—	0.041	4/17/2014
	2,000,000	—	—	0.07	11/28/2016
	15,000,000	—	—	0.006	10/25/2017
	100,000	—	—	0.05	10/23/2014
	431,034	—	—	0.059	4/7/2015
	200,000	—	—	0.09	10/4/2015
	74,074	—	—	0.09	2/1/2016
	89,928	—	—	0.139	2/7/2016
	174,180	—	—	0.122	3/16/2016
	83,333	—	—	0.12	3/28/2016
	215,517	—	—	0.058	1/1/2015
	260,417	—	—	0.048	4/2/2015
	367,647	—	—	0.034	7/2/2015
	961,538	—	—	0.013	11/5/2015
	3,205,128	—	—	0.0039	1/11/2016
	10,000,000	—	—	0.0033	2/11/2018
961,538	—	—	0.013	4/5/2016	
675,676	—	—	0.0185	7/1/2016	

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	1,259,000	–	–	0.01	10/1/2016
Gerard Stoehr	500,000	–	– \$	0.08	10/31/2014
	3,000,000	–	– \$	0.006	10/25/2017

(1)

Does not include (a) shares of our common stock issuable upon conversion of notes payable issued in connection with loans Ms. Kessler made to the Company between April 2010 and Feb 2011 and (b) 520,962 shares of our common stock issuable upon exercise of warrants granted to Ms. Kessler in connection with loans she made to the Company between April 2010 and February 2011.

(2)

Does not include (a) shares of our common stock issuable upon conversion of notes payable issued in connection with loans Mr. Lazar made to the Company between April 2010 and February 2011 and (b) 978,475 shares of our common stock issuable upon exercise of warrants granted to Mr. Lazar in connection with loans he made to the Company between April 2010 and March 2011.

## **Board of Directors Policy on Executive Compensation**

### ***Executive Compensation***

Our executive compensation philosophy is to provide competitive levels of compensation by recognizing the need for multi-discipline management responsibilities, achievement of our company's overall performance goals, individual initiative and achievement, and allowing our company to attract and retain management with the skills critical to its long-term success. Management compensation is intended to be set at levels that we believe is consistent with that provided in comparable companies. Our company's compensation programs are designed to motivate executive officers to meet annual corporate performance goals and to enhance long-term stockholder value. Our company's executive compensation has four major components: base salary, performance incentive, incentive stock options and other compensation.

### ***Executive Base Salaries***

Base salaries are determined by evaluating the various responsibilities for the position held, the experience of the individual and by comparing compensation levels for similar positions at companies within our principal industry. We review our executives' base salaries and determine increases based upon an officer's contribution to corporate performance, current economic trends and competitive market conditions.

### ***Performance Incentives***

We utilize performance incentives based upon criteria relating to performance in special projects undertaken during the past fiscal year, contribution to the development of new products, marketing strategies, manufacturing efficiencies, revenues, income and other operating goals to augment the base salaries received by executive officers.

### ***Incentive Stock Options***

Our company uses stock options as a means to attract, retain and encourage management and to align the interests of executive officers with the long-term interest of our company's stockholders.

***Benefits and Other Compensation***

Our company does not offer a health plan to its executive officers or employees.

***Retirement and Post Retirement Benefits***

Our company does not offer a post-retirement health plan to its executive officers or employees unless it is included in a employment agreement directly entered between employee and us.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

We currently have outstanding five classes of voting securities: our common stock, Series A Preferred Stock, Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, and Series H Preferred Stock.

The following tables set forth information with respect to the beneficial ownership of shares of each class of our voting securities as of October 1, 2014, by:

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each person known by us to beneficially own 5% or more of the outstanding shares of such class of stock, based on filings with the Securities and Exchange Commission and certain other information,

.

each of our current named executive officers and directors, and

.

all of our current executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power. In addition, under SEC rules, a person is deemed to be the beneficial owner of securities which may be acquired by such person upon the exercise of options and warrants or the conversion of convertible securities within 60 days from the date on which beneficial ownership is to be determined.

The term "named executive officers" is defined in the SEC rules as those executive officers who are required to be listed in the Summary Compensation Table provided under Item 10 of this Annual Report on Form 10-K.



Except as otherwise indicated in the notes to the following table,

we believe that all shares are beneficially owned, and investment and voting power is held by, the persons named as owners, and

the address for each beneficial owner listed in the table is c/o Puresafe Water Systems, Inc., 35 East Mall, Plainview, New York 11803.

***Series A Preferred Stock:***

<b>Name and Address of Stockholder</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class</b>
Jerome and Anne Asher JTWROS <sup>(1)</sup>	5,000	9.5%
Robert D. Asher <sup>(2)</sup>	5,000	9.5%
All executive officers and directors as a group (three persons)	—	0.0%

(1)

The address for Mr. J. and Ms. Asher is 2701 N. Ocean Boulevard, Apartment E-202, Boca Raton, Florida 33431.

(2)

The address for Mr. R. Asher is 72 Old Farm Road, Concord, Massachusetts 01742.

***Series D Preferred Stock:***

<b>Name and Address of Stockholder</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class</b>
John A. Borger <sup>(1)</sup>	10,000	10.8%

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Shirley M. Wan <sup>(2)</sup>	6,000	6.5%
All executive officers and directors as a group (three persons)	–	0.0%

(1)

The address for Mr. Borger is 806 E. Avenida Pico, Suite 1, PMB #262, San Clemente, California 92673.

(2)

The address for Ms. Wan is 5455 Chelsen Wood Drive, Duluth, Georgia 30155.

**Series F Preferred Stock:**

<b>Name and Address of Stockholder</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class</b>
Robert Kaszovitz <sup>(1)</sup>	10,000	25.2%
C Trade Inc. <sup>(2)</sup>	9,375	10.4%
Olsham Grundman Frome Rosenzweig & Wolosky <sup>(3)</sup>	5,000	5.6%
Peter Hoffman <sup>(4)</sup>	3,126	7.9%
All executive officers and directors as a group (three persons)	–	0.0%

(1)

The address for Mr. Kaszovitz is 1621 51st Street, Brooklyn, New York, 11204.

(2)

The address for C Trade Inc. is 25-40 Shore Boulevard, Suite 9L, Astoria, New York 11102.

(3)

The address for Olsham Grundman Frome Rosenzweig & Wolosky is 65 East 55th Street, New York, New York 10022.

(4)

The address for Mr. Hoffman is 70-35 Vleigh Place, Flushing, New York 11367.



**Series G Preferred Stock:**

The designation, rights, preferences and privileges that the Board established for the Series G Preferred are set forth in a Certificate of Designation that was filed with the Secretary of State of the State of Delaware on June 17, 2014. Among other things, the Certificate of Designation provides that each one share of Series g Preferred has voting rights equal to (x) 0.019607 *multiplied by* the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the Numerator ), *divided by* (y) 0.49, *minus* (z) the Numerator.

The Board issued an aggregate of fifty-one (51) shares of Series G Preferred to our President, Stephen M. Hicks (the Series G Stockholder ). As a result of the voting rights granted to the Series G Preferred, the Series G Stockholder holds in the aggregate approximately 51% of the total voting power of all issued and outstanding voting capital of the Company.

The following table sets forth the name of the Series G Stockholder and the number of shares of Series G Preferred held by the Series G Stockholder.

Name of Series G Stockholder	Number of Shares of Series G Preferred held
Stephen M. Hicks 90 Grove Street Ridgefield, CT 06877	51

**Series H Preferred Stock:**

The designation, rights, preferences and privileges that the Board established for the Series H Preferred are set forth in a Certificate of Designation that was filed with the Secretary of State of the State of Delaware on June 17, 2014. The Series H Preferred Stock is convertible at the option of the holder into such number of shares upon the conversion ratio equal to the aggregate stated value of the Series H Preferred Stock converted divided by the average closing bid price for the calendar month preceding the original issuance date of the shares being converted, as reported by the reporting service. The Company is required to reserve a sufficient number of shares of common stock as may be required to be issued thereunder. The conversion ratio is subject to adjustment, from time to time, for various reasons including a sale or merger by the Company. With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series H Preferred Stock shall vote together with the holders of Common Stock without regard to class, except as to those matters on which separate class voting is required by applicable law or the Articles of Incorporation or bylaws.

The Board has issued an aggregate of twenty (29) shares of Series H Preferred to Tarpon Bay Partners LLC ( Tarpon ), a member firm of the Southridge LLC group, pursuant to a consulting agreement between the Company and Tarpon.

The following table sets forth the name of the Series H Stockholder and the number of shares of Series H Preferred held by the Series G Stockholder.

<b>Name of Series H Stockholder</b>	<b>Number of Shares of Series H Preferred held</b>
Tarpon Bay Partners LLC 17210 Germano Court Naples, FL 34110	29

**Common Stock:**

<b>Name and Address of Stockholder<sup>(1)</sup></b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class<sup>(2)</sup></b>
Leslie Kessler	75,867,389 <sup>(3)</sup>	5.46%
Stephen M. Hicks c/o Southridge LLC Executive Pavilion, 90 Grove Street Ridgefield, CT 06877	1,003,580,628 <sup>(4)</sup>	43.18%
All executive officers and directors as a group (3)	1,079,448,017	45.60%

(1)

The addresses of our executive officers and directors, and of any other stockholder for whom an address is not given, listed in the above table are c/o the Company, 35 East Mall, Plainview, NY 11803.

(2)

Based on 1,346,187,330 shares of common stock outstanding as of October 1, 2014.

(3)

Ms. Kessler is our Chief Executive Officer and a member of our board of directors. Ms. Kessler owns 33,133,003 shares of common stock directly, and additionally owns beneficially (a) 42,734,386 shares of our common stock issuable upon exercise of warrants granted to Ms. Kessler or issued to Ms. Kessler in connection with loans made to or investments made in the Company by Ms. Kessler; and upon conversion of outstanding loans to the Company made by Ms. Kessler to the Company in 2010 and 2011.

(4)

Stephen M. Hicks has voting and investment control over securities held by Tarpon Bay Partners LLC ( Tarpon ), which is the record holder of 29 shares of Series H Convertible Preferred Stock ( Series H Preferred ) of the Company. As a result of such control of Tarpon and stock ownership, Mr. Hicks has voting power over the 611,038,961 shares of common stock into which the Series H Preferred shares are convertible on all matters upon which the Company's holders of common stock are entitled to vote or to which stockholders are entitled to give consent. Tarpon also holds \$50,000 and \$75,000 principal amount convertible notes of the Company convertible into common stock at a

conversion price per share, for the \$50,000 note, equal to 40% of the lowest reported closing bid price of the common stock for the 30 trading days, ending on the trading day immediately before the relevant conversion date, and for the \$75,000 note, 75% of the lowest closing bid price during the 20 trading days prior to the day that the holder delivers a conversion notice to the Company. At October 1, 2014, the \$50,000 and \$75,000 convertible notes were convertible into 208,333,333 and 150,000,000 shares of common stock, respectively. Mr. Hicks, as manager of ASC Recap LLC ( ASC ), has voting and investment control over 25,375,000 shares of the Company's common stock held by ASC, and of a convertible promissory note of the Company held by ASC in the principal amount of \$2,500, convertible at a conversion price of 50% of the lowest reported closing bid price of the Company's common stock for the 30 trading days, ending on the trading day immediately before the relevant conversion date. At October 1, 2014, the \$2,500 note was convertible into 8,333,333 shares of common stock. Mr. Hicks, as manager of the general partner of Southridge Partners II LP ( Southridge II ), has voting and investment control over a Common Stock Purchase Warrant held by Southridge II to purchase 500,000 shares of common stock of the Company, at an exercise price of \$.05 per share. At October 1, 2014, Mr. Hicks owns beneficially 1,003,580,628 shares of common stock, through his voting and investment control of securities of the Company held by Tarpon, ASC and Southridge II. This number does not include the 51 shares of Series G Preferred owned by Mr. Hicks, which is representative of 1,401,265,155 shares solely for voting purposes. For more information, please see the Series G Stockholder table above.

## **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

### **Certain Relationships and Related Transactions**

#### **Executive Compensation**

On January 2, 2013, the Company issued a total of 12,820,512 warrants as directors' compensation to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and former Chief Financial Officer, each of which received 3,205,128 warrants for their first quarter of 2013 director fees. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$70,800 of stock-based compensation in connection with this issuance.

On March 18, 2013, the Company issued to its Chief Executive Officer 15,000,000 shares of common stock and warrants to purchase an additional 15,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. The shares and warrants are fully vested on the date of grant. The Company recorded \$188,700 of stock-based compensation which includes \$97,500 for the share issuance and \$91,200 for the warrants granted.

On March 18, 2013, the Company issued to its former Chief Financial Officer 10,000,000 shares of common stock and warrants to purchase an additional 10,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. The shares and warrants are fully vested on the date of grant. The Company recorded \$125,800 of stock-based compensation which includes \$65,000 for the share issuance and \$60,800 for the warrants granted.

On April 5, 2013, the Company issued a total of 3,846,152 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and Chief Financial Officer, each of which received 961,538 warrants for their second quarter of 2013 director fees. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$27,600 of stock-based compensation in connection with this issuance.

On July 1, 2013, the Company issued a total of 2,702,704 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and Chief Financial Officer, each of which received 675,676 warrants for their third quarter of 2013 director fees. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$40,800 of stock-based compensation in connection with this issuance.



No directors' compensation for services on the Board of Directors in the 2013 fourth quarter was paid in 2013.

### **Transactions with Southridge LLC and Affiliated Companies**

#### *Issuance of Convertible Promissory Notes*

On April 4, 2014 the Company issued a convertible promissory note for \$ 50,000 to a related party. The note matures in one year from the issuance date with the stated interest rate at 0%. The note is convertible into the Company's common stock at a 40% discount of the lowest closing bid price during the 30 trading days prior to conversion.

On April 21, 2014 the Company issued a convertible promissory note to a related party for \$2,500. The note matures on April 30, 2015 with the stated interest rate at 0%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.

*Consulting Agreement with Tarpon Bay Partners LLC*

On June 13, 2014, the Company entered into a consulting agreement (the *Agreement*) with Tarpon Bay Partners, LLC, a Florida limited liability company ( *Tarpon* ), for the period from the date of the Agreement through March 31, 2015. The Agreement requires Tarpon to provide general management and consulting services and advisory services to the Company, including assistance in connection with the restructuring of our outstanding debt and equity securities. The manager of Tarpon is Stephen Hicks, the President of the Company. Pursuant to the terms of the agreement, Tarpon will be compensated by the issuance to it by the Company of shares of a new Series H Convertible Preferred Stock. The Series H Preferred Stock is convertible at the option of the holder into such number of shares upon the conversion ratio equal to the aggregate stated value of the Series H Preferred Stock converted divided by the average closing bid price for the calendar month preceding the original issuance date of the shares being converted, as reported by the reporting service. The Company is required to reserve a sufficient number of shares of common stock as may be required to be issued thereunder. The conversion ratio is subject to adjustment, from time to time, for various reasons including a sale or merger by the Company. With respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Series H Preferred Stock shall vote together with the holders of Common Stock without regard to class, except as to those matters on which separate class voting is required by applicable law or the Articles of Incorporation or bylaws. Pursuant to the terms of the Consulting Agreement, Tarpon received 17 shares of Series H Preferred Stock with a stated value of \$425,000 upon the execution of the Agreement, and will receive additional shares of Series H Preferred Stock with a stated value of \$75,000 monthly, continuing through the balance of the term of the Consulting Agreement. The execution and delivery of the Consulting Agreement was approved by the directors of the Company. Mr. Hicks did not participate in the vote on this matter.

Tarpon is a controlled company in the Southridge LLC group of companies. Stephen M. Hicks, President and a director of the Company, controls Southridge LLC and is manager of Tarpon.

On December 19, 2013, the Company issued 22,109,375 shares of common stock to Southridge LLC upon conversion of \$35,000 of the principal amount of a convertible note and legal fees of \$375.

On November 27, 2013, the Company entered into a settlement agreement with Tarpon. Tarpon previously purchased outstanding liabilities of the Company from TCA in the amount of \$506,431 and Designs and Project Development Corporation (a former landlord) in the amount of \$56,429. Per the terms of the settlement the Company was to issue Tarpon shares of common stock in one or more tranches as necessary, and subject to adjustment and ownership limitations, sufficient to generate proceeds to equal to \$562,860 (the *Claim Amount*) and a convertible promissory note in the principal amount of \$75,000. Pursuant to the settlement agreement, the Company and Tarpon reasonably estimated that the fair market value of the settlement shares and all other amounts received or to be received by Tarpon is equal to approximately \$825,000. The Company failed to issue shares to Tarpon, and in the first quarter of 2014 TCA rescinded its liabilities purchase agreement with Tarpon.

On January 31, 2014, in conjunction with the settlement agreement outlined above, the Company issued Tarpon a convertible promissory note in the principal amount of \$75,000. The convertible note matures one year from the date of issuance with interest at 10% per annum. The convertible promissory note shall have no registration rights and shall be convertible into the common stock of the Company at any time at a conversion price equal to 75% of the low closing bid price for the twenty days prior to conversion.

On April 4, 2014 the Company issued a convertible promissory note for \$ 50,000 to Tarpon. The note matures in one year from the issuance date with the stated interest rate at 0%. The note is convertible into the Company's common stock at a 40% discount of the lowest closing bid price during the 30 trading days prior to conversion.

On April 21, 2014 the Company issued a convertible promissory note to ASC Recap LLC, controlled by Southridge LLC, for \$2,500. The note matures on April 30, 2015 with the stated interest rate at 0%. The note is convertible into the Company's common stock at a 50% discount of the lowest closing bid price during the 30 trading days prior to conversion.

*Series G Preferred Stock*

On June 13, 2014, the Company's Board of Directors (Mr. Hicks not participating) authorized the issuance to Mr. Hicks of the 51 authorized shares of a new Series G Convertible Preferred Stock. The designation, rights, preferences and privileges that the Board established for the Series G Preferred Stock are set forth in a Certificate of Designations that was filed with the Secretary of State of the State of Delaware on June 17, 2014. Among other things, the Certificate of Designation provides that each one share of Series G Preferred has voting rights equal to (x) (i) 0.019607 *multiplied by* the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the number determined by this clause (i), the Numerator), *divided by* (ii) 0.49, *minus* (y) the Numerator. As a result of the voting rights granted to the Series G Preferred, the Series G Stockholder holds in the aggregate approximately 51% of the total voting power of all issued and outstanding voting capital of the Company. These voting rights apply only to matters of Company capitalization (i.e. increase in authorized common stock, stock splits, etc.), and similar matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent. The Series G Preferred Stock has a par value of \$0.001 per share, no rights to dividends but provides for liquidation rights which entitle the holder to a pro-rata share of net assets. Each Series G share is convertible, at the option of the holder, into one share of Common Stock.

**Item 14. Principal Accountant Fees and Services.**

Marcum LLP ( Marcum ) has served as our independent registered public accountants for our past two fiscal years.

**Principal Accountant Fees and Services**

The following table sets forth the fees billed by our independent certified public accountants for the years ended December 31, 2013 and 2012 for the categories of services indicated.

Category	Fiscal Year Ended December 31,	
	2013	2012
Audit fees <sup>(1)</sup>	\$ 97,500	\$ 125,000
Audit-related fees <sup>(2)</sup>	—	—
Tax fees <sup>(3)</sup>	—	—
All Other Fees <sup>(4)</sup>	—	—

(1)

Consists of fees billed for the audit of our annual financial statements, review of financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

(2)

Consists of assurance and related services that are reasonably related to the performance of the audit and reviews of our financial statements and are not included in audit fees in this table.

(3)

Consists of professional services rendered for tax compliance, tax advice and tax planning. The nature of these tax services is tax preparation.

(4)

Marcum provided the following other services during the year ended December 31, 2013 and 2012: none.

### **Audit Committee Approval**

We do not have an audit committee of our board of directors. We believe that each member of our board has the expertise and experience to adequately serve our stockholders' interests while serving as directors. Since we are not required to maintain an audit committee and our full board acts in the capacity of an audit committee, we have not elected to designate any member of our board as an audit committee financial expert.

### **Pre-Approval Policy**

We understand the need for Marcum to maintain objectivity and independence in its audit of our financial statements. To minimize relationships that could appear to impair the objectivity of Marcum, our board of directors has restricted the non-audit services that Marcum may provide to us and has determined that we would obtain even these non-audit services from Marcum only when the services offered by Marcum are more effective or economical than services available from other service providers.

Our board of directors has adopted policies and procedures for pre-approving all non-audit work performed by Marcum or any other accounting firms we may retain. Specifically, under these policies and procedures, our board shall pre-approve the use of Marcum for detailed, specific types of services within the following categories of non-audit services: merger and acquisition due diligence and related accounting services; tax services; internal control reviews; and reviews and procedures that we request Marcum to undertake to provide assurances of accuracy on matters not required by laws or regulations. In each case, the policies and procedures require our board to set specific annual limits on the amounts of such services which we would obtain from Marcum and require management to report the specific engagements to the board and to obtain specific pre-approval from the board for all engagements.

### **Board of Directors Approval of Audit-Related Activities**

Management is responsible for the preparation and integrity of our financial statements, as well as establishing appropriate internal controls and financial reporting processes. Marcum is responsible for performing an independent audit of our financial statements and issuing a report on such financial statements. Our board of directors responsibility is to monitor and oversee these processes.

Our board reviewed the audited financial statements of our company for the year ended December 31, 2013 and met with both other members of management and the independent auditors, separately and together, to discuss such financial statements. Management and the auditors have represented to us that the financial statements were prepared in accordance with generally accepted accounting principles in the United States. Our board also received written disclosures and a letter from our auditors regarding their independence from us, as required by [Independence Standards Board Standard No. 1,] and discussed with the auditors their independence with respect to all services that our auditors rendered to us. Our board also discussed with the auditors any matters required to be discussed by Statement on Auditing Standards No. 61. Based upon these reviews and discussions, our board authorized and directed that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2013.

## **PART IV**

### **Item 15. Exhibits and Financial Statement Schedules**

(a)

#### **Financial Statements**

The financial statements and schedules included in this Annual Report on Form 10-K are listed in Item 8 and commence following page 20.

(b)

**Exhibits**

The following exhibits are being filed as part of this Annual Report on Form 10-K, or incorporated herein by reference as indicated.

<b>Exhibit Number</b>	<b>Exhibit Description</b>
3.1	Composite of Certificate of Incorporation of PureSafe Water Systems, Inc., as amended to date.
3.1a	Certificate of Designations of Series B Preferred Stock, filed June 26, 2012. [Incorporated by reference to Exhibit 3.1a to our Current Report on Form 8-K, filed with the SEC on April 3, 2013.]
3.1b	Amendment to Certificate of Designations of Series B Preferred Stock, filed April 16, 2013. [Incorporated by reference to Exhibit 3.1b to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2013.]
3.1c	Certificate of Correction to Certificate of Designation of Series A Preferred Stock, filed June 3, 2014. [Incorporated by reference to Exhibit 3.08 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
3.1d	Certificate of Correction to Certificate of Designation of Series F Preferred Stock, filed June 3, 2014. [Incorporated by reference to Exhibit 3.09 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
3.1e	Certificate of Designations of Series G Convertible Preferred Stock, filed June 17, 2014. [Incorporated by reference to Exhibit 3.10 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
3.1f	Certificate of Designations of Series H Convertible Preferred Stock, filed June 17, 2014. [Incorporated by reference to Exhibit 3.11 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
3.2	Amended and Restated By-Laws of PureSafe Water Systems, Inc. [Incorporated by reference to Exhibit 3(ii) to Amendment No. 1 to our Annual Report 10-KSB/A, filed with the SEC on November 17, 2003 (File No.: 0-30544).]

- 3.2a Amended and Restated By-Laws of PureSafe Water Systems, Inc., effective June 11, 2009 [Incorporated by reference to Exhibit 3.2a to our Current Report on Form 8-K, filed with the SEC on June 11, 2009.]
- 3.2b Amended and Restated By-Laws of PureSafe Water Systems, Inc., effective June 13, 2014 [Incorporated by reference to Exhibit 3.12 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
- 4.5 Series B Warrant to Purchase Common Stock and Allonge to and Amendment and Extension of Common Stock Purchase Warrant. [Incorporated by reference to Exhibit 4.6 to Amendment No. 1 to our Annual Report on Form 10-KSB/A, filed with the SEC on November 17, 2003 (File No.: 0-30544).]
- 4.6 Series B Second Allonge to and Amendment and Extension of Common Stock Purchase Warrant. [Incorporated by reference to Exhibit 4.6 to our Registration statement on Form SB-2, filed with the SEC on January 24, 2005 (File No.: 0-30544).]
- 4.7 Subordinated Debentures. [Incorporated by reference to Exhibit 4.5 to Amendment No. 1 to our Annual Report on Form 10-KSB, filed with the SEC on November 17, 2003 (File No.: 0-30544).]
- 10.4 Warrant Certificate, dated November 16, 2005, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on November 23, 2005 (File No.: 0-30544).]
- 10.5 Loan Agreement, dated as of October 11, 2006, between Water Chef, Inc. and Southridge Partners LP. . [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).]
- 10.6 Registration Rights Agreement, dated as of October 11, 2006, between Water Chef, Inc. and Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).]
- 10.7 Promissory Note of Water Chef, Inc., dated October 17, 2006 and in the principal amount of \$300,000, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).]
- 10.8 Warrant Certificate, dated October 11, 2006, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).]
- 10.9 Securities Purchase Agreement, dated as of August 27, 2007, between Water Chef, Inc., Southridge Partners LP and Southshore Capital Fund Ltd. [Incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.10 Registration Rights Agreement, dated as of August 27, 2007, between Water Chef, Inc. and Southridge Partners LP. [Incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.11 10% Convertible Promissory Note of Water Chef, Inc., dated September 7, 2007 and in the principal amount of \$200,000, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.3 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.12 10% Convertible Promissory Note of Water Chef, Inc., dated September 7, 2007 and in the principal amount of \$50,000, issued to Southshore Capital Fund Ltd. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.13 Warrant Certificate, dated September 7, 2007, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.5 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.14 Warrant Certificate, dated September 7, 2007, issued to Southshore Capital Fund Ltd. [Incorporated by reference to Exhibit 99.6 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.15



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- Private Equity Credit Agreement, dated as of September 7, 2007, between Water Chef, Inc. and Brittany Capital Management Limited. [Incorporated by reference to Exhibit 99.7 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.16 Registration Rights Agreement, dated as of September 7, 2007, between Water Chef, Inc. and Brittany Capital Management Limited. [Incorporated by reference to Exhibit 99.8 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.17 Employment Agreement, dated April 16, 2008 between Water Chef, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.18 Employment Agreement, dated April 16, 2008, between Water Chef, Inc. and Terry R. Lazar. [Incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.19 Stock Purchase, Loan and Security Agreement, dated April 16, 2008, between Water Chef, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 99.3 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]

- 10.20 Stock Purchase, Loan and Security Agreement, dated April 16, 2008, between Water Chef, Inc. and Terry R. Lazar. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.21 Stock Purchase, Loan and Security Agreement dated April 16, 2008 between Water Chef, Inc. and Shaul Kochan. [Incorporated by reference to Exhibit 99.5 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.22 Letter Agreement, dated August 18, 2008 between Water Chef, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K (Date of Report: August 18, 2008), filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.23 Letter Agreement, dated August 18, 2008, between Water Chef, Inc. and Terry R. Lazar. [Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K (Date of Report: August 18, 2008), filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.24 Consulting Agreement, dated as of June 6, 2008, by and between Water Chef, Inc., and Hidell-Eyster International. [Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-QSB, filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.25 Form of Stock Subscription Agreement utilized in the sale of common stock and warrants from October 26, 2007 through July 18, 2008. [Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-QSB, filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.26 Form of Warrant issued to investors in connection with the sale of common stock and warrants from October 26, 2007 through July 18, 2008. [Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-QSB, filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.27 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated October 14, 2008 and in the principal amount of \$50,000 issued to Leslie J. Kessler. [Incorporated by reference to Exhibit 10.27 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.28 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated November 17, 2008 and in the principal amount of \$50,000 issued to Leslie J. Kessler. [Incorporated by reference to Exhibit 10.28 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.29 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated October 14, 2008 and in the principal amount of \$50,000 issued to Terry R. Lazar. [Incorporated by reference to Exhibit 10.29 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.30 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated November 17, 2008 and in the principal amount of \$50,000 issued to Terry R. Lazar. [Incorporated by reference to Exhibit 10.30 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.31 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated December 17, 2008 and in the principal amount of \$50,000 issued to Steve Legum. [Incorporated by reference to Exhibit 10.31 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.32 Consulting Agreement, dated as of August 6, 2008, by and between Water Chef, Inc., and Designs and Project Development Corp. [Incorporated by reference to Exhibit 10.32 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.33 Consulting Agreement, dated as of December 14, 2007, by and between Water Chef, Inc., and Bircon Ltd. [Incorporated by reference to Exhibit 10.33 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.34 Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.]
- 10.35 Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Terry R. Lazar. [Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.]
- 10.36

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- Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Al Wolter. [Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.]
- 10.37 Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Al Wolter. [Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.]
- 10.38 Warrant certificate evidencing 4,000,000 warrants registered in the name of Leslie J. Kessler. [Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.]

10.39	Form of Loan Agreement for the Company's 2009 private placement. [Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on November 16, 2009.]
10.40	Employment Agreement, effective as of January 1, 2010, between the Company and Leslie J. Kessler. [Incorporated by reference to Exhibit 10.40 to our Current Report on Form 8-K, filed with the SEC on February 8, 2010.]
10.41	Employment Agreement, effective as of January 1, 2010, between the Company and Terry R. Lazar. [Incorporated by reference to Exhibit 10.41 to our Current Report on Form 8-K, filed with the SEC on February 8, 2010.]
10.42	General Management Services Agreement, effective January 1, 2010, between Hidell-Eyester International and the Company. [Incorporated by reference to Exhibit 10.42 to our Current Report on Form 8-K, filed with the SEC on April 1, 2010.]
10.43	Secured Convertible Promissory Note, dated August 3, 2011, issued by the Company to Southridge Partners II, LP. [Incorporated by reference to Exhibit 10.43 to our Quarterly Report on Form 10-Q, filed with the SEC on August 22, 2011.]
10.44	Securities Purchase Agreement, dated August 3, 2011, between the Company and Southridge Partners II, LP. [Incorporated by reference to Exhibit 10.44 to our Quarterly Report on Form 10-Q, filed with the SEC on August 22, 2011.]
10.45	Common Stock Purchase Warrant issued August 3, 2011 by the Company to Southridge Partners II, LP. [Incorporated by reference to Exhibit 10.45 to our Quarterly Report on Form 10-Q, filed with the SEC on August 22, 2011.]
10.46	Engineering Package Agreement, dated January 24, 2013, by and between the Company and ETG/Engineering Technologies Group, Inc. [Incorporated by reference to Exhibit 10.46 to our Current Report on Form 8-K, filed with the SEC on April 3, 2013.]
10.47	Exclusive Sales and Marketing Agreement, dated January 25, 2013, by and between the Company and Global Equipment Marketing, Inc. [Incorporated by reference to Exhibit 10.47 to our Current Report on Form 8-K, filed with the SEC on April 3, 2013.]
10.48	Consulting Agreement, dated June 13, 2014, between the Company and Tarpon Bay Partners LLC. [Incorporated by reference to Exhibit 10.48 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
10.49	Equity Purchase Agreement, dated June 13, 2014, between the Company and Alpha Capital Anstalt. [Incorporated by reference to Exhibit 10.49 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
10.50	Registration Rights Agreement, dated June 13, 2014, between the Company and Alpha Capital Anstalt. [Incorporated by reference to Exhibit 10.50 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
10.51	Stipulation, dated June 2, 2014, between the Company and Levin Consulting Group. [Incorporated by reference to Exhibit 10.51 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
14.1	Code of Ethics. [Incorporated by reference to Exhibit 14.01 to our Current Report on Form 8-K, filed with the SEC on June 17, 2014.]
31	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer and Principal Financial Officer.*.
32	Section 1350 Certification of Chief Executive Officer and Principal Financial Officer.**

\* Filed herewith

\*\* Furnished herewith

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

**SEC Ref.**

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

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

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 23, 2014

PURES SAFE WATER SYSTEMS, INC.

By: /s/ Leslie J. Kessler  
Leslie J. Kessler, Chief Executive Officer,  
Principal Financial Officer and Principal  
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b><u>Signature and Name</u></b>	<b><u>Capacities</u></b>	<b><u>Date</u></b>
<u>/s/ Leslie J. Kessler</u> Leslie J. Kessler (Principal Executive Officer)	Chief Executive Officer and Director	October 23, 2014
<u>/s/ Stephen M. Hicks</u> Stephen M. Hicks	President and Director	October 23, 2014
<u>/s/ Gilbert Steedley</u> Gilbert Steedley	Director	October 23, 2014