

LIVEWIRE ERGOGENICS INC.
Form 10-Q
November 14, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

LIVEWIRE ERGOGENICS INC.

(Exact name of registrant as specified in its charter)

Nevada

000-54588

26-1212244

(State or other jurisdiction of incorporation or organization) (Commission file no.) (IRS Employee Identification No.)

24845 Corbit Place

Yorba Linda, CA 92887

(Current Address of Principal Executive Offices)

Phone number: (714) 940-0155

(Issuer Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Check one:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

The number of shares of Common Stock of the issuer outstanding as of November 10, 2014 was 154,508,559.

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LiveWire Ergogenics, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,086	\$ 8,342
Accounts receivable, net	47,536	-
Inventory, net	131,089	46,234
Prepaid and other current assets	226,526	930
Total current assets	414,237	55,506
Property and equipment, net	8,944	7,456
Costs incurred in connection with Apple Rush transaction	64,549	-
Security deposits	23,430	-
Total assets	\$ 511,160	\$ 62,962
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 79,178	\$ 104,145
Accounts payable - related party	-	236,341
Deferred revenue	89,342	-
Due to other	200	-
Notes payable	230,500	165,096
Notes payable - related party	196,341	-
Convertible debentures, net	198,173	322,859
Total liabilities	793,734	828,441
COMMITMENT AND CONTINGENCIES (SEE NOTE 8)	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized Series B convertible preferred stock, \$0.0001 par value, 150,000 shares designated, 32,820 and 134,724 shares issued and outstanding at September 30, 2014 and December 31, 2013 respectively, liquidation preference is \$1 per share	3	13
Series C convertible preferred stock, \$0.0001 par value, 75 shares designated, 75 and 0 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively, liquidation preference is \$200 per share	-	-

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Common stock, \$0.0001 par value, 200,000,000 and 100,000,000 shares authorized, respectively, 148,758,559 and 86,807,868 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	14,876	8,681
Class A convertible common stock, \$0.0001 par value, 1,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2014 and December 31, 2013	-	-
Subscription receivable	-	(45,000)
Additional paid-in-capital	7,280,787	3,221,758
Accumulated deficit	(7,578,240)	(3,950,931)
Total stockholders' deficit	(282,574)	(765,479)
Total liabilities and stockholders' deficit	\$ 511,160	\$ 62,962

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

**LiveWire
Ergogenics,
Inc.
Condensed
Consolidated
Statements of
Operations
(Unaudited)**

	For the three months ended September 30, 2014		For the three months ended September 30, 2013	
Income:				
Sales	\$22,087	\$57,431	\$203,887	\$112,709
Cost of goods sold	6,031	37,397	125,673	68,644
Gross Profit	16,056	20,034	78,214	44,065
Operating Expenses:				
Selling costs	(122) 31,707	52,736	48,195
General and administrative costs	282,050	81,995	2,571,062	731,629
Depreciation	1,245	1,641	3,513	5,438
Total Operating Expenses	283,173	115,343	2,627,311	785,262
Loss from operations	(267,117) (95,309) (2,549,097) (741,197
Other Expenses (Income):				
Other expense (income)	(44,523) -	172,040	-
Gain on change in fair value of derivative liability	-	-	-	(65,544
Loss on settlement of debt	45,493	-	82,281	-
Amortization of beneficial conversion feature	63,446	78,649	179,214	270,016
Interest expense	4,921	18,624	644,677	30,702
Total other expenses	69,337	97,273	1,078,212	235,174
Net Loss Before Provision for Income Taxes	\$(336,454) \$(192,582) \$(3,627,309) \$(976,371
Income Tax	-	-	-	-
Net Loss	\$(336,454) \$(192,582) \$(3,627,309) \$(976,371
Basic and diluted loss per share	\$(0.00) \$(0.00) \$(0.03) \$(0.01
Weighted average shares				

outstanding - basic and diluted	142,431,535	77,535,234	125,788,803	72,056,955
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The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of these statements.

LiveWire Ergogenics, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the nine months ended September 30,	
	2014	2013
Cash Flows From Operating Activities:		
Net loss	\$(3,627,309)	\$(976,371)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	3,513	5,438
Net loss on settlement of debt	82,281	-
Change in fair value of derivative liability	-	(65,544)
Amortization of beneficial conversion feature	179,214	270,016
Amortization of prepaid consulting fees	230,351	-
Common stock issued for services	140,000	184,320
Common stock issued for interest expense	614,200	-
Stock based compensation	1,751,184	-
Write off of subscription receivable	45,000	-
Bad debt provision	42,069	4,515
Discount on issuance of common stock	80,600	-
Change in operating assets and liabilities:		
Accounts receivable, net	(89,605)	(15,113)
Due to others	200	-
Inventory, net	(84,855)	(1,325)
Prepaid and other current assets	(91,387)	-
Accounts payable and accrued expenses	(9,874)	14,608
Accounts payable - related party	(30,000)	251,000
Deferred revenue	89,342	-
Net cash used in operating activities	(675,076)	(328,456)
Cash Flows From Investing Activities		
Purchase of equipment	(5,001)	-
Costs incurred in connection with Apple Rush transaction	(64,549)	-
Payments towards security deposits	(23,430)	-
Net cash used in investing activities	(92,980)	-
Cash Flows From Financing Activities		
Proceeds from notes payable	160,000	79,000
Repayment of note payable	(20,500)	(6,000)
Proceeds from convertible notes payable	215,000	332,000
Repayment of convertible note payable	-	(40,000)

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Advance from stockholders	-	47,746
Repayment of advances from stockholders	-	(10,297)
Repayment of shareholder loans	-	(52,000)
Repayment of notes payable - related party	(10,000)	-
Proceeds from issuance of common stock	424,300	-
Net cash provided by financing activities	768,800	350,449
Net Increase in Cash	744	21,993
Cash at Beginning of Period	8,342	2,110
Cash at End of Period	\$9,086	\$24,103
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$-	\$-
Cash paid for income taxes	\$-	\$-
Non Cash Investing and Financing Activities		
Beneficial conversion feature on convertible notes	\$215,000	\$305,512
Conversion of accounts payable - related party to convertible notes payable	\$-	\$90,045
Common stock issued for payment of notes payable	\$50,000	\$80,980
Common stock issued for payment of convertible notes payable	\$250,300	\$-
Conversion of interest to note payable	\$6,760	\$7,500
Conversion of note payable to Class A common stock	\$20,596	\$-
Conversion of Class A common stock to common stock	\$100	\$-
Accounts payable and accrued expenses settled by issuance of common stock	\$15,093	\$-
Conversion of accounts payable - related party to notes payable - related party	\$206,341	\$-
Common stock issued for prepaid consulting services	\$364,560	\$-
Conversion of Series B preferred stock to common stock	\$10	\$-
Capital contribution related to accrued expenses	\$-	\$460,667
Reclassification of derivative liabilities to additional paid-in capital on conversion of debt	\$-	\$216,911

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

LIVEWIRE ERGOGENICS INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – BASIS OF PRESENTATION AND NATURE OF OPERATIONS

The Company

LiveWire MC2, LLC (“LVWR”) was organized under the laws of the State of California on January 7, 2008 as a limited liability company. LVWR was formed for the purpose of developing and marketing consumable energy supplements. LVWR adopted December 31 as the fiscal year end.

On June 30, 2011, LVWR, together with its members, entered into a purchase agreement (the “Purchase Agreement”), for a share exchange with SF Blu Vu, Inc., (“SF Blu”), a public Nevada shell corporation. SF Blu Vu Inc. was formed in Nevada on October 9, 2007 under the name Semper Flowers, Inc. On May 15, 2009 the Company changed its name to SF Blu Vu, Inc. The Purchase Agreement was ultimately completed on August 31, 2011. Under the terms of the purchase agreement (the “Purchase Agreement”), SF Blu issued 36,000,000 (30,000,000 shares pre stock split of 1 additional share for every five shares held) of their common shares for 100% of the members’ interest in LVWR. Subsequent to the Purchase Agreement, the members of LVWR owned 60% of common shares of SF Blu, effectively obtaining operational and management control of SF Blu. For accounting purposes, the transaction has been accounted for as a reverse acquisition under the purchase method of business combinations, and accordingly the transaction has been treated as a recapitalization of LVWR, the accounting acquirer in this transaction, with SF Blu (the shell) as the legal acquirer.

Subsequent to the Purchase Agreement the financial statements presented are those of LVWR, as if the Purchase Agreement had been in effect retroactively for all periods presented. Immediately following completion of the Purchase Agreement, LVWR and their stockholders had effective control of SF Blu even though SF Blu had acquired LVWR. For accounting purposes, LVWR will be deemed to be the accounting acquirer in the transaction and, consequently, the transaction will be treated as a recapitalization of LVWR *i.e.*, a capital transaction involving the issuance of shares by SF Blu for the members’ interest in LVWR. Accordingly, the assets, liabilities and results of operations of LVWR, became the historical financial statements of SF Blu at the closing of the Purchase Agreement, and SF Blu’s assets, liabilities and results of operations have been consolidated with those of LVWR commencing as of August 31, 2011, the date the Purchase Agreement closed. SF Blu is considered the accounting acquiree, or legal acquirer, in this transaction. No step-up in basis or intangible assets or goodwill will be recorded in this transaction. As this transaction is being accounted for as a reverse acquisition, all direct costs of the transaction have been charged to additional paid-in capital. All professional fees and other costs associated with transaction have been charged to

additional paid-in-capital.

Subsequent to the Purchase Agreement being completed, SF Blu as the legal acquirer and surviving company, together with their controlling stockholders from LVWR changed the name of SF Blu to LiveWire Ergogenics, Inc. (“LiveWire”) on September 20, 2011. Hereafter, SF Blu, LVWR, or LiveWire are referred to as the “Company”, unless specific reference is made to an individual entity.

In contemplation, and in connection with the Purchase Agreement, the Company’s directors on July 19, 2011 adopted resolutions determining the Designations, Rights and Preferences of the Series A Preferred Stock (“Series A”) consisting of One Million (1,000,000) shares. The Series A is senior to the common stock and all other shares of Preferred Stock that may be later authorized. Each outstanding share of Series A has One Thousand (1,000) votes on all matters submitted to the stockholders and votes with the common stock on all matters. The Series A shares vote separately as a class has the right to elect three persons to serve on the board of directors. The shares of Series A (i) do not have a liquidation preference; (ii) do not accrue, earn, or participate in any dividends; (iii) are not subject to redemption by the Corporation; and (iv) each share of Series A has one thousand (1,000) votes per share and votes with the common stock on all matters. As such, the Series A has voting control of the Company and may use its majority control to affect the interests of the Company’s common stockholders.

After December 31, 2012, each outstanding share of Series A may be converted, at the option of the owner, into fifty (50) shares of the Company's common stock; provided however, that no conversion shall be permitted unless (i) the Company's common stock is quoted for public trading in the United States or other international securities market and (ii) the Company's market capitalization (i.e., the number of issued and outstanding shares of common stock multiplied by the daily closing price) has exceeded Fifty Million Dollars (\$50,000,000) for 90 consecutive trading days. These provisions, if executed by the holders of the Series A, may significantly dilute the Company’s common stockholders after December 31, 2012.

On July 19, 2011, the Company issued 1,000,000 shares of the newly created Series A to Weed & Co. LLP, (“Weed & Co”) or its designee, in exchange for a \$100,000 reduction of the outstanding accounts payable, being the equivalent of One Cent (\$0.1) per share of Series A. Weed & Co., had provided legal services to SF Blu as a shell prior to the Purchase Agreement, and to the Company subsequent to the Purchase Agreement. Subsequent to the issuance of the Series A, Weed & Co assigned the Series A to a third party. On July 21, 2011 in connection with this Series A issuance, a Contingent Option Agreement (“Contingent Option”) was entered into between the two primary members of LVWR and the holder of the issued Series A. Under the terms of this Contingent Option the holder of the Series A is not allowed to transfer, sell or borrow against the Series A shares. Under the Contingent Option the two members of LVWR could purchase the issued Series A under the following circumstances:

- Provided that LVWR becomes a subsidiary of a public entity any time prior to December 31, 2012, the two members of LVWR could purchase the Series A for \$400,000.
- Provided that LVWR becomes a subsidiary of a public entity, and that entity has not secured an investment of \$350,000 prior to December 31, 2011 or March 31, 2012, the two members of LVWR could purchase the Series A for \$2.
- Provided that LVWR becomes a subsidiary of a public entity, and that entity has not secured an investment of \$600,000 prior to June 30, 2012, the two members of LVWR could purchase the Series A for \$2.
- Provided that LVWR becomes a subsidiary of a public entity, and that entity has not secured an investment of \$850,000 prior to December 31, 2012, the two members of LVWR could purchase the Series A for \$2.
- Provided that LVWR becomes a subsidiary of a public entity, and that entity reports cumulative gross revenue of \$600,000 by June 30, 2012, the two members of LVWR could purchase the Series A for \$2.
- Provided that LVWR becomes a subsidiary of a public entity, and that entity reports cumulative gross revenue of \$1,500,000 by December 31, 2012, the two members of LVWR could purchase the Series A for \$2.
- Provided that LVWR becomes a subsidiary of a public entity, and that entity secures funding in excess of \$200,000 through the efforts of the two members, then the two members of LVWR could purchase the Series A for \$2.

Based on the above noted terms of the Contingent Option the Company accounted for the issued Series A, similar to that of the 36,000,000 (30,000,000 shares pre stock split of 1 additional share for every five shares held) shares of common stock issued with the Purchase Agreement, as the terms of the Contingent Option are effectively made to ensure that the Series A, and any benefit there under, would ultimately reside with the LVWR members. Accordingly, the Series A are treated as having been issued by the accounting acquirer, or LVWR, since inception for all periods presented.

In March 2012, Bill Hodson and Brad Nichols exercised their rights under the Contingent Option Agreement dated July 21, 2011 with Rick Darnell. Based upon the Agreement and fulfillment of contingencies in the Agreement, Bill Hodson and Brad Nichols each acquired 500,000 shares of the Series A from Rick Darnell for \$2.00.

On December 4, 2012, the Company reached an agreement with the holders of the Company's Series A Preferred Stock to surrender and cancel all outstanding shares of the Company's Series A Preferred Stock. A copy of the Acknowledgement of Surrender and Cancellation of the Series A Preferred Stock is attached as Exhibit 4.4 to the Form 8-k filed on December 4, 2012. The surrender and cancellation of the Series A Preferred Stock improves the Company's capital structure because it eliminated the super voting provisions and conversion features that, if exercised by the holders, might dilute the common stockholders of the Company.

Interim Financial Statements

These unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2014 and 2013 reflect all adjustments which, in the opinion of management, are necessary to present

fairly the financial position, results of operations and cash flows for the periods presented in accordance with the accounting principles generally accepted in the United States of America. All adjustments are of a normal recurring nature.

These interim unaudited condensed consolidated financial statements should be read in conjunction with LVWR's financial statements and notes thereto for the years ended December 31, 2013 and 2012 included in the Company's Form 10-K filed with the United States Securities and Exchange Commission on April 14, 2014. The Company assumes that the users of the interim financial information herein have read, or have access to, the audited consolidated financial statements for the preceding period, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The results of operations for the three and nine month period ended September 30, 2014 are not necessarily indicative of results for the entire year ending December 31, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

Advertising is expensed as incurred and is included in selling costs on the accompanying unaudited condensed consolidated statements of operations. Advertising and marketing expense for the nine months ended September 30, 2014 and 2013 was approximately \$52,736 and \$48,195, respectively and for the three months ended September 30, 2014 and 2013 was approximately (\$122) and \$31,707, respectively.

Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, a customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. At September 30, 2014 and December 31, 2013, the Company has established, based on a review of its outstanding balances, an allowance for doubtful accounts in the amount of \$0 and \$28,098, respectively.

Basis of Accounting

These unaudited condensed consolidated financial statements have been prepared using the basis of accounting generally accepted in the United States of America for interim financial statements and with Form 10-Q and article 8 of the Regulation S-X of the United States Securities and Exchange Commission ("SEC"). Under this basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Cash and Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less and money market accounts to be cash equivalents. There were no cash equivalents at September 30, 2014 and December 31, 2013.

Use of Estimates

The preparation of the 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 and liabilities, and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Derivative Liabilities

The Company assessed the classification of its derivative financial instruments as of September 30, 2014, which consist of convertible instruments and rights to shares of the Company's common stock, and determined that such derivatives meet the criteria for liability classification under ASC 815.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

Inventory

Inventory is stated at the lower of cost or market value using the FIFO method. Inventory consists primarily of finished goods and packaging materials and production supplies, i.e. packaged consumable energy supplements, manufactured under contract, and the wrappers and containers they are sold in. A periodic inventory system is maintained by 100% count. Inventory is replaced periodically to maintain the optimum stock on hand available for immediate shipment.

Inventory is shown on the balance sheet net of a reserve, which represents older packaging that may still be used as samples. The Company does not anticipate taking additional inventory reserves in the future.

Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted FASB ASC 820-Fair Value Measurements and Disclosures, or ASC 820, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company's financial position or operating results, but did expand certain disclosures.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company did not have any Level 2 or Level 3 assets or liabilities as of September 30, 2014, with the exception of its convertible notes payable. The carrying amounts of these liabilities at September 30, 2014 approximate their respective fair value based on the Company's incremental borrowing rate.

Cash is considered to be highly liquid and easily tradable as of September 30, 2014 and therefore classified as Level 1 within our fair value hierarchy.

In addition, FASB ASC 825-10-25 Fair Value Option, or ASC 825-10-25, was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with professional standards for "Accounting for Derivative Instruments and Hedging Activities".

Professional standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of "Conventional Convertible Debt Instrument".

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when “Accounting for Convertible Securities with Beneficial Conversion Features,” as those professional standards pertain to “Certain Convertible Instruments.” Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity’s control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

Income Taxes

Prior to the Purchase Agreement LVWR was taxed as a limited liability company, which is a ‘pass through entity’ for tax purposes. Taxable income flowed through to its members, and income taxes were not levied at the company level. Subsequent to the reverse merger LVWR became a subsidiary of the SF Blu and is taxed at the Company’s marginal corporate rate. The Company accounts for income taxes under the provisions of ASC Section 740-10-30, which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in their consolidated financial statements or tax returns.

Stock Based Compensation

The Company accounts for the grant of stock options and restricted stock awards in accordance with ASC 718, “Compensation-Stock Compensation.” ASC 718 requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity based compensation.

Recognition of Revenue

Sales are recorded at the time title of goods sold passes to customers, which based on shipping terms which generally occurs when the product is shipped to the customer and collectability is reasonably assured. Based on prior experience, the Company reasonably estimates its sales returns and warranty reserves. Sales are presented net of discounts and allowances. Discounts and allowances are determined when a sale is negotiated. The Company does not grant price adjustments after a sale is complete. The Company warrants its products sold on the internet with a right of exchange by means of an approved Return Merchandise Authorization (RMA). Returns of unused merchandise are similarly authorized. Warranty and return policy for product sold through retail distribution channels is negotiated with each customer.

The Company's revenue is primarily derived from sales of their consumable energy supplement products through distributors who distribute their products to retailers. The Company also sells their products directly to consumers; this is normally done through internet sales. This portion of their sales is minimal.

Deferred revenue is comprised of advances from customers, which will be applied toward future invoices within one year. As of September 30, 2014 and December 31, 2013, the balance was \$89,342 and \$0, respectively.

Shipping costs

Shipping costs are included in cost of goods sold and totaled approximately \$25,425 and \$5,800 for the nine months ended September 30, 2014 and 2013, respectively, and approximately \$6,979 and \$0 for the three months ended September 30, 2014 and 2013, respectively.

Earnings (loss) per common share

The Company utilizes the guidance per FASB Codification “ASC 260 "Earnings Per Share". Basic earnings per share is calculated on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation, plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented separately as it is anti-dilutive. Such securities, shown below, presented on a common share equivalent basis and outstanding as of September 30, 2014 and 2013 have been excluded from the per share computations:

	For the Nine Months Ended September 30,	
	2014	2013
Convertible Notes Payable	2,810,234	7,314,907
Warrants	6,680,002	6,305,002
Series B Preferred Stock	32,820	-
Series C Preferred Stock	600,000	-

Long Lived Assets

The Company follows Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment (“ASC 360-10”). ASC 360-10 requires those long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Reclassification

Certain reclassifications have been made to conform the prior period data to the current presentation. These reclassifications had no effect on reported net loss.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements for the nine months ended September 30, 2014, include the accounts of the Company and its wholly-owned subsidiary LiveWire MC2, LLC ("LVWR"). All significant intercompany balances and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer 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 for annual and interim periods beginning on or after December 15, 2016, and early adoption is not permitted. Entities will have the option of using either a full retrospective approach or a modified approach to adopt the guidance in the ASU. The Company is currently evaluating the impact of adopting this guidance.

In June 2014, the FASB issued ASU 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 provides more explicit guidance for treating share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

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, 2014 and the Company will continue to assess the impact on its consolidated financial statements.

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 3 – GOING CONCERN

The Company's unaudited condensed consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has a net loss of \$3,627,309 for the nine months ended September 30, 2014, and has an accumulated deficit of \$7,578,240 as of September 30, 2014. The Company has not yet established an adequate ongoing source of revenues sufficient to cover its operating costs and to allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease development of operations.

In order to continue as a going concern, develop a reliable source of revenues, and achieve a profitable level of operations the Company will need, among other things, additional capital resources. Management's plans to continue as a going concern include raising additional capital through increased sales of product and by sale of common shares. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 4 – PROPERTY AND EQUIPMENT

	September 30, 2014 (Unaudited)	December 31, 2013
Equipment	\$ 27,780	\$ 26,338
Accumulated depreciation	(18,836)	(18,882)
Total	\$ 8,944	\$ 7,456

Property and equipment is stated at cost less accumulated depreciation and depreciated using straight line methods over the estimated useful lives of the related assets ranging from three to five years. Maintenance and repairs are expensed currently. The cost of normal maintenance and repairs is charged to operations as incurred. Major overhaul that extends the useful life of existing assets is capitalized. When equipment is retired or disposed, the costs and related accumulated depreciation are eliminated and the resulting profit or loss is recognized in income.

Depreciation expense amounted to \$3,513 and \$5,438 for the nine months ended September 30, 2014 and 2013, respectively and \$1,245 and \$1,641 for the three months ended September 30, 2014 and 2013, respectively. During the nine months ended September 30, 2014, the Company purchased equipment for cash totaling \$5,000.

NOTE 5 – INVENTORY

The Company outsources the manufacturing of their consumable energy supplements. The wife of the Company's CEO owns approximately 8% of this food outsource producer. The Company believes that they are a minor customer of this outsource producer and that production terms with this outsourcer are conducted on an arms-length basis.

	September 30, 2014 (Unaudited)	December 31, 2013
Finished goods	\$ —	\$ 423
Packaging materials and production supplies	148,988	66,445
	148,988	66,868
Reserve on inventory	(17,899)	(20,634)
	\$ 131,089	\$ 46,234

NOTE 6 – COSTS INCURRED IN CONNECTION WITH APPLE RUSH TRANSACTION

Pursuant to the 8-K filed on August 14, 2014 on Form 8-K filed by the Registrant with the Securities and Exchange Commission on May 20, 2014, the Company reported that “on May 13, 2014 the Company completed the acquisition of a majority stake of Apple Rush Company, Inc., pursuant to a Memorandum of Understanding which the Company had disclosed on Form 8-K filed on March 10, 2014”. Due to the complicated and difficult nature of the due diligence and other requirements to complete the transaction, the parties to the agreements have agreed to postpone the closing of the transaction. The Company believes the closing will occur on or about November 30, 2014. The Company believes that because the transaction was not completed, the requirement to consolidate any financial information of Apple Rush and to present historical audited financial statements of Apple Rush has not been met as of the date of this filing.

As of September 30, 2014, the Company has incurred costs totaling \$64,549 related to the Apple Rush transaction.

NOTE 7 – RELATED PARTY TRANSACTIONS AND LOANS FROM STOCKHOLDERS

Included in accounts payable – related parties as of September 30, 2014 and December 31, 2013, \$0 and \$70,045, respectively, related to legal fees payable to a related party Richard Weed and Weed & Co. During the nine months ended September 30, 2014 the Company issued 1,500,000 shares of its common stock for conversion of \$24,300 and the balance of \$45,745 was forgiven by the note holder.

Also included in accounts payable – related parties as of September 30, 2014 and December 31, 2013, \$0 and \$236,341, respectively, payable to an entity owned by the controlling shareholders of the Company. The decrease in accounts payable – related party is due to a reclassification of accounts payable to a note payable related party for the amount of \$206,341. The related entity provides marketing and product development costs and general and administrative expenses to the Company. During the nine months ended September 30, 2014, the Company repaid \$40,000 in cash.

As of September 30, 2014 and December 31, 2013 the Company, CEO and President advanced \$0 and \$43,596, respectively. During the nine months ended September 30, 2014, the Company repaid \$23,000 in cash and issued 1,000,000 shares of Class A common stock to convert the balance of \$20,596 valued at \$67,000. In addition, the \$4,404 was recorded as a stock based compensation and \$42,000 was recorded as a loss on settlement of debt during the nine months ended September 30, 2014.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

On July 20, 2011 the Company entered into two employment agreements. The agreements have a five year term and may be terminated upon mutual agreement. The salary associated with each of the agreements is \$260,000 annually, a portion of which will be paid in cash and a portion of which will be deferred until the Company achieves certain levels of sales and or enters into a merger, purchase or sale agreement and or if the Company is sold.

During the year ended December 31, 2012, a total of \$209,448, due under these employment agreements, were converted into 1,256,688 (1,047,240 shares pre stock split of 1 additional share for every five shares held) shares of the Company's common stock and Class A warrants to purchase 1,256,688 (1,047,240 Class A warrants pre stock split of 1 additional share for every five shares held) shares of the Company's common stock at \$1 per share. These warrants expire on January 31, 2016.

On September 3, 2013, Bill Hodson, the chief executive officer, and Brad Nichols, the president of the Company, agreed to forgive their deferred salaries to date, the total amount of which is \$460,667, and shall no longer hold the Company responsible for payment of that amount. This has been recorded as a capital contribution. In addition, Mr. Hodson and Mr. Nichols agreed to change the terms of their employment agreements to a salary of \$1.00 per year. All other details of employment agreements shall remain in full effect.

Litigation

The Company is subject to certain legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

NOTE 9 – NOTES PAYABLE

On April 22, 2014, the Company issued a non-interest bearing promissory note for \$206,341 to a related party for cash. The principal is payable every 90 days beginning on September 30, 2014 at the rate of \$25,000 per quarter until the balance is zero.

On April 22, 2014, the Company issued a promissory note for \$150,000 to a third party for cash, which is due on October 22, 2014. Interest accrued at a rate of 12% per annum. Monthly interest payments of \$1,500 is payable every 30 days beginning on May 22, 2014.

During the nine months ended September 30, 2014, the Company repaid \$5,000 in cash and 2,000,000 shares of common stock valued at \$74,000 to satisfy \$50,000 of notes payable. The remaining \$24,000 was recorded as loss on settlement of debt.

As of September 30, 2014 and December 31, 2013 the Company, CEO and President advanced \$0 and \$43,596, respectively. During the nine months ended September 30, 2014, the Company repaid \$23,000 in cash and issued 1,000,000 shares of Class A common stock to convert the balance of \$20,596 valued at \$67,000. In addition, the \$4,404 was recorded as a stock based compensation and \$42,000 was recorded as a loss on settlement of debt during the nine months ended September 30, 2014.

As of June 30, 2014, the Company wrote-off a note payable in the amount of \$3,500. There was no interest related to the note.

On June 24, 2014, the Company repaid \$10,000 in cash to satisfy \$10,000 of notes payable. There was no interest related to the note.

On August 13, 2014, the Company issued a promissory note for \$10,000 to a third party for cash, which is due on August 13, 2015. Annual compounded interest accrues at a rate of 6%, per annum.

As of September 30, 2014, the remaining balance for notes payable totaled \$230,500.

As of September 30, 2014 and December 31, 2013, the Company had accrued interest of \$37,865 and \$32,562 respectively, related to notes payable, which is included in accounts payable and accrued expenses on the consolidated balance sheets.

NOTE 10 – CONVERTIBLE NOTES PAYABLE

At September 30, 2014 and December 31, 2013 convertible debentures consisted of the following:

	September 30, 2014 (Unaudited)	December 31, 2013
Convertible notes payable	\$ 323,500	\$ 404,545
Unamortized debt discount	(125,327)	(81,686)
Total	\$ 198,173	\$ 322,859

Notes issued on January 8, 2013:

On January 8, 2013 the Company entered three agreements with third party non-affiliates to 6% interest bearing convertible debentures totaling \$50,000 due on July 31, 2013, with the conversion features commencing immediately. The loans are convertible at 40% of the lowest closing price during the five days immediately prior to the date of the conversion notice. In connection with this debenture, the Company recorded a \$43,185 discount on debt, related to the beneficial conversion features of the notes to be amortized over the lives of the notes or until the notes are converted or repaid. During the year ended December 31, 2013 one of the agreements was repaid in full for \$15,000, a second agreement valued at \$20,000 was assigned to another debt holder and in October 2013 the remaining note was restructured. During the nine months ended September 30, 2014, the Company converted the remaining balance of \$15,000 to 925,926 shares of common stock.

Note issued on January 23, 2013:

On January 23, 2013, the Company entered into an agreement with a third party non-affiliate to a 6% interest bearing convertible debentures for \$25,000 due on July 31, 2013, with the conversion features commencing immediately. The loan is convertible at 40% of the lowest closing bid price during the five days immediately prior to the date of the conversion notice. In connection with this debenture, the Company recorded a \$21,258 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of December 31, 2013 this note has not been converted. In October 2013 this note was restructured. During the nine months ended September 30, 2014, the Company converted the remaining balance of \$25,000 to 1,543,210 shares of common stock.

Note issued on February 1, 2013:

On February 1, 2013, the Company entered into an agreement with a related party for conversion of accounts payable to a 6% interest bearing convertible debentures for \$90,045 due on July 31, 2013, with the conversion features commencing immediately. The loan is convertible at 40% of the lowest closing bid price during the five days immediately prior to the date of the conversion notice. In connection with this debenture, the Company recorded a \$75,824 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of December 31, 2013 this note has been partially converted into 2,604,167 shares of common stock valued at \$20,000. In October 2013 this note was restructured. During the nine months ended September 30, 2014, the Company converted \$24,300 to 1,500,000 shares of common stock and the balance of \$45,745 was forgiven by the note holder and was recorded as a gain on settlement of debt the nine months ended September 30, 2014.

Note issued on April 29, 2013:

On April 29, 2013, the Company entered into an agreement with a third party non-affiliate to a 6% interest bearing convertible debentures for \$5,000 due on April 29, 2014, along with redemption premium of 110% of principal amount and conversion features commencing immediately. The loan is convertible at \$0.03 per share. In connection with this debenture, the Company recorded a \$333 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. During the nine months ended September 30, 2014 the Company converted the balance of \$5,000 to 46,296 shares of common stock. In addition, the Company issued 153,704 shares of common stock valued at \$16,600 which was recorded as interest expense.

During the nine months ended September 30, 2014 the Company fully amortized and wrote off a total debt discount of \$333 of which \$95 was recorded to current operation as amortization of beneficial conversion feature.

Note issued on May 7, 2013:

On May 7, 2013, the Company entered into an agreement with a third party non-affiliate to a 6% interest bearing convertible debentures for \$12,000 due on May 6, 2014, along with redemption premium of 110% of principal amount and conversion features commencing immediately. The loan is convertible at \$0.03 per share. In connection with this debenture, the Company recorded a \$12,000 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of September 30, 2014 this note has not been converted.

During the nine months ended September 30, 2014, the Company amortized a total debt discount of \$4,154 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$0 remained.

Note issued on May 23, 2013:

On May 23, 2013, the Company entered into an agreement with a third party non-affiliate to a 6% interest bearing convertible debentures for \$12,000 due on May 22, 2014, along with redemption premium of 110% of principal amount and conversion features commencing immediately. The loan is convertible at \$0.03 per share. In connection with this debenture, the Company recorded a \$5,200 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. During the nine months ended September 30, 2014 the Company converted the balance of \$12,000 to 111,111 shares of common stock. In addition, the Company issued 288,889 shares of common stock valued at \$31,200 which was recorded as interest expense

During the nine months ended September 30, 2014, the Company fully amortized and wrote off a total debt discount of \$5,200 of which \$2,029 was recorded to current period operations as amortization of beneficial conversion feature.

Note issued on August 16, 2013:

On August 16, 2013, the Company entered into an agreement with a third party non-affiliate to a 10% interest bearing convertible debentures for \$100,000 due on August 16, 2016. The loan is convertible immediately at \$0.25 per share. In connection with this debenture, the note holder was issued 500,000 warrants and recorded a \$5,167 discount, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of September 30, 2014 this note has not been converted.

During the nine months ended September 30, 2014, the Company amortized a total debt discount of \$1,307 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$3,197 remained.

Note issued on October 3, 2013:

On October 3, 2013, the Company entered into an agreement with a third party non-affiliate to a 10% interest bearing convertible debentures for \$25,000 due on October 2, 2016. The loan is convertible immediately at \$0.25 per share. In connection with this debenture, the note holder was issued 125,000 warrants and recorded a \$3,637 discount, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of September 30, 2014 this note has not been converted.

During the nine months ended September 30, 2014, the Company amortized a total debt discount of \$898 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$2,440 remained.

Note issued on October 3, 2013:

On October 3, 2013, the Company entered into an agreement with a third party non-affiliate to a 10% interest bearing convertible debentures for \$25,000 due on October 2, 2016. The loan is convertible immediately at \$0.25 per share. In connection with this debenture, the note holder was issued 125,000 warrants and recorded a \$3,637 discount, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of September 30, 2014 this note has not been converted.

During the nine months ended September 30, 2014, the Company amortized a total debt discount of \$898 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$2,440 remained.

Note issued on October 30, 2013:

On October 30, 2013, the Company entered into an agreement with a third party non-affiliate to a 10% interest bearing convertible debentures for \$25,000 due on October 29, 2016. The loan is convertible immediately at \$0.25 per share. In connection with this debenture, the note holder was issued 125,000 warrants and recorded a \$2,687 discount, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of September 30, 2014 this note has not been converted.

During the nine months ended September 30, 2014, the Company amortized a total debt discount of \$661 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$1,871 remained.

Note issued on October 30, 2013:

On October 30, 2013, the Company entered into an agreement with a third party non-affiliate to a 8% interest bearing convertible debentures for \$53,000 due on July 27, 2014, with conversion features commencing after 180 days following the date of this note. The loan is convertible at 58% of the average of the lowest three trading prices for the common stock during the ten trading day prior to the conversion date. In connection with this debenture, the Company recorded a \$53,000 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. During the nine months ended September 30, 2014, the Company converted the principal balance and accrued interest into 1,304,126 shares of common stock.

During the nine months ended September 30, 2014, the Company amortized and wrote off a total debt discount of \$40,830 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$0 remained.

Note issued on December 17, 2013:

On December 17, 2013, the Company entered into an agreement with a third party non-affiliate to a 8% interest bearing convertible debentures for \$37,500 due on September 7, 2014, with conversion features commencing after 180 days following the date of this note. The loan is convertible at 58% of the average of the lowest three trading prices for the common stock during the ten trading day prior to the conversion date. In connection with this debenture, the Company recorded a \$37,500 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. During the nine months ended September 30, 2014, the Company converted the principal balance and accrued interest into 1,245,917 shares of common stock.

During the nine months ended September 30, 2014, the Company amortized and wrote off a total debt discount of \$34,722 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$0 remained.

Note issued on February 19, 2014:

On February 19, 2014, the Company entered into an agreement with a third party non-affiliate to a 8% interest bearing convertible debentures for \$78,500 due on November 16, 2014, with conversion features commencing after 180 days following the date of this note. The loan is convertible at 58% of the average of the lowest three trading prices for the common stock during the ten trading day prior to the conversion date. In connection with this debenture, the Company recorded a \$78,500 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. During the nine months ended September 30, 2014, the Company converted the principal balance of \$78,500 and accrued interest of \$3,140 into 4,975,264 shares of common stock.

During the nine months ended September 30, 2014, the Company amortized and wrote off a total debt discount of \$78,500 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$0 remained.

Note issued on July 21, 2014:

On July 21, 2014, the Company entered into an agreement with a third party non-affiliate to a 8% interest bearing convertible debentures for \$53,000 due on April 24, 2015, with conversion features commencing after 180 days following the date of this note. The loan is convertible at 58% of the average of the lowest three trading prices for the common stock during the ten trading day prior to the conversion date. In connection with this debenture, the Company recorded a \$53,000 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of September 30, 2014 this note has not been converted.

During the nine months ended September 30, 2014, the Company amortized a total debt discount of \$13,585 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$39,415 remained.

Note issued on September 5, 2014:

On September 5, 2014, the Company entered into an agreement with a third party non-affiliate to a 8% interest bearing convertible debentures for \$83,500 due on June 9, 2015, with conversion features commencing after 180 days following the date of this note. The loan is convertible at 58% of the average of the lowest three trading prices for the common stock during the ten trading day prior to the conversion date. In connection with this debenture, the Company recorded a \$83,500 discount on debt, related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note is converted or repaid. As of September 30, 2014 this note has not been converted.

During the nine months ended September 30, 2014, the Company amortized a total debt discount of \$7,536 to current period operations as amortization of beneficial conversion feature. As of September 30, 2014, a net discount of \$75,964 remained.

NOTE 11 – STOCKHOLDERS' DEFICIT

Common Stock

As a result of the reverse merger, the shares of the Company outstanding prior to the closing of the Purchase Agreement are treated as having been issued as of that date, whereas the shares issued in connection with the purchase Agreement are treated as having been issued since inception for all periods presented.

On January 8, 2014, the Company issued 6,100,000 shares of the Company's common stock. The Company issued the 6,100,000 shares as follows: (i) 3,969,136 shares of common stock at \$0.0162 per share for conversion of two convertible debentures totaling \$64,300 and 130,864 shares of common stock at \$0.0162 per share for conversion of accrued interest totaling \$2,120; (ii) 2,000,000 shares at \$0.037 per share for conversion of a note payable totaling \$50,000 and excess was recorded as a loss on settlement of debt totaling \$24,000.

On January 21, 2014, the Company issued 400,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.02 per share for a total of \$8,050.

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On January 23, 2014, the Company issued 5,600,000 shares of common stock at \$0.032 per share to two professional advisors for services rendered totaling \$140,000 and additional compensation of \$39,200 recorded as a loss on settlement of debt.

On January 31, 2014, the Company issued 1,200,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.03 per share for a total of \$30,000.

On February 3, 2014, the Company issued 96,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.05 per share for a total of \$4,800.

On February 4, 2014, the Company issued 500,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.05 per share for a total of \$25,000.

On February 6, 2014, the Company converted 1,000,000 shares of Series A Common Stock into 1,000,000 shares of restricted Common Stock.

On February 10, 2014, the Company issued 2,000,000 bonus shares of common stock to an investor valued at \$4,800 (\$0.0024 per share). These shares have been recorded as interest expense.

On February 11, 2014, the Company issued 1,000,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.07 per share for a total of \$70,000.

On February 14, 2014, the Company issued 3,000,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.05 per share for a total of \$150,000.

On February 25, 2014, the Company issued 1,000,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.07 per share for a total of \$70,000.

On February 28, 2014, the Company issued 150,000 shares of common stock pursuant to a stock purchase agreement at approximately \$0.07 per share for a total of \$10,500.

On March 13, 2014, the Company issued 22,266,428 shares of the Company's common stock. The Company issued the 22,266,428 shares as follows: (i) 16,035,000 shares of common stock at \$0.108 per share to twelve employees and eight professional advisors for compensation totaling \$1,731,780; (ii) 5,200,000 bonus shares to two investors valued at \$0.108 per share totaling \$561,600 (iii) 157,407 shares of common stock at \$0.108 per share for conversion of two notes payable totaling \$17,000 and 442,593 additional shares of common stock at \$0.108 per share for recorded as interest expense totaling \$47,800; (iv) 431,428 shares of common stock at \$0.108 per share to a professional advisor for accrued services totaling \$12,973 and additional compensation of \$33,621 recorded as a loss on settlement of debt.

On April 22, 2014, the Company entered in to a four month consulting agreement and issued 2,000,000 shares valued at \$140,000 pursuant to the agreement. The Company recorded these shares as prepaid expenses and has expensed the total \$140,000 through September 30, 2014. The Company recognized a related expense of \$41,400 to reflect the discount.

On May 1, 2014, the Company issued 519,751 shares of common stock valued at \$0.048 per share totaling \$25,000 for partial conversion of a \$53,000 convertible note.

On May 8, 2014, the Company issued 784,375 shares of common stock valued at \$0.0384 per share totaling \$28,000 in principal and \$2,120 in accrued interest for the remaining conversion of a \$53,000 convertible note.

On June 17, 2014, the Company entered in to a one year consulting agreement and issued 2,000,000 shares valued at \$112,800 pursuant to the agreement. The Company recorded these shares as prepaid expenses and has expensed \$32,758 of the total \$112,800 through September 30, 2014.

On June 17, 2014, the Company entered in to a one year consulting agreement and issued 1,200,000 shares valued at \$67,680 pursuant to the fair market value of the shares issued on the day of the agreement. The Company recorded these shares as prepaid expenses and has expensed \$19,655 of the total \$67,680 through September 30, 2014.

On June 18, 2014, the Company entered in to a four month consulting agreement and issued 800,000 shares valued at \$44,080 pursuant to the agreement. The Company recorded these shares as prepaid expenses and has expensed \$37,938 of the total \$44,080 through September 30, 2014.

On June 18, 2014, the Company issued 636,943 shares of common stock valued at \$0.0314 per share totaling \$20,000 in principal and \$26 in accrued interest for partial conversion of a convertible note.

On June 19, 2014, the Company issued 1,000,000 shares of common stock pursuant to a stock purchase agreement at \$0.05 per share for a total of \$50,000 for cash.

On June 23, 2014, the Company issued 608,974 shares of common stock valued at \$0.0312 per share totaling \$17,500 in principal and \$1,500 in interest for the remaining conversion of a \$37,500 convertible note.

On August 20, 2014, the Company issued 790,514 shares of common stock valued at \$0.0253 per share totaling \$20,000 in principal for partial conversion of a convertible note.

On August 25, 2014, the Company issued 738,916 shares of common stock valued at \$0.0203 per share totaling \$15,000 in principal for partial conversion of a convertible note.

On August 27, 2014, the Company issued 914,634 shares of common stock valued at \$0.0164 per share totaling \$15,000 in principal for partial conversion of a convertible note.

On August 27, 2014, the Company issued 3,112,955 shares of common stock for a conversion of 101,904 shares of Series B preferred stock.

On September 5, 2014, the Company issued 2,531,200 shares of common stock valued at \$0.0125 per share totaling \$28,500 in principal and \$3,140 in interest for the remaining conversion of a \$78,500 convertible note.

Subscription Receivable

The Company issued 216,000 (180,000 shares pre stock split of 1 share for every five shares held) shares (valued at \$54,000) for the year ended December 31, 2012 of the Company's restricted common stock. In April 2012, \$9,000 was received and the balance at December 31, 2012 is \$45,000. These shares were never issued and the receivable was written off to other expenses during the nine months ended September 30, 2014.

Series B Convertible Preferred Stock

Designation and Rank

On October 17, 2013, the Company created its new Series B preferred class of stock. The series of Preferred Stock shall be designated the "Series B Preferred Stock" and shall consist of 150,000 shares. The Series B Preferred Stock shall be senior to the common stock and all other shares of Preferred Stock that may be later authorized. Each share of Series B Preferred Stock shall have a Stated Value of \$1.00 per share.

Voting, Liquidation, Dividends, and Redemption

Each outstanding share of Series B Preferred Stock shall vote with the common stock on all matters. The shares of Series B Preferred Stock shall (i) have a liquidation preference of \$1.00 per share; (ii) accrue, earn, or participate in any dividends on the common stock; and (iii) shall be subject to redemption by the Corporation prior to December 31, 2014 at a fixed redemption price of \$1.10 per share.

Conversion

After March 31, 2014, each outstanding share of Series B Preferred Stock may be converted, at the option of the owner, into common stock using a conversion formula that delivers common stock worth \$1.25 for every \$1.00 of Series B converted. The owner shall provide a written Notice of Conversion that specifies the amount of Series B Preferred Stock to be converted into common stock and the lowest closing bid price of the Corporation's common stock during the preceding 10 trading days.

Limitation on Conversion

In no event (except while there is outstanding a tender offer for any or all of the shares of the Company's Common Stock) shall the owner be entitled to convert any shares of Series B Preferred Stock to the extent that, after such conversion the sum of (1) the number of shares of Common Stock then beneficially owned by the owner and its affiliates, and (2) the number of shares of Common Stock issuable upon the conversion of the shares of Series B Preferred Stock with respect to which the determination of this proviso is being made, would result in beneficial ownership by the owner and its affiliates of more than 9.99% of the outstanding shares of Common Stock (after taking into account the shares to be issued to the owner upon such conversion). For purposes of the proviso to the preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. Nothing herein shall preclude the owner from disposing of a sufficient number of other shares of Common Stock beneficially owned by the owner so as to thereafter permit the continued conversion of shares of Series B Preferred Stock.

On October 17, 2013, the Company issued 134,724 shares of Series B convertible preferred stock as the result of the conversion of debt and accrued liabilities totaling \$134,724, valued at \$1 per share.

On August 27, 2014, three unrelated parties converted a total of 101,904 shares of Series B preferred stock into 3,112,955 of common stock at the conversion rate of \$0.03288.

Equity Designation and Issuances:

Effective January 29, 2014 the Company amended its Series B Preferred Stock designation in order to permit the issuance of junior Preferred Stock which have enhanced or “super-majority” voting rights. The amendment was approved by the holders of the Series B Preferred Stock. The amended Series B Preferred Stock designation is attached as Exhibit 10.1 in Form 8-K filed with the SEC on February 6, 2014.

Series C Convertible Preferred Stock

Effective January 29, 2014 the Board of Directors authorized the creation of 75 shares of a new Series C convertible preferred stock. Each share of Series C Preferred has the right to convert into 8,000 shares of the Company’s common stock and have a liquidation preference of \$200. Additionally, the Series C Preferred is allowed to cast a vote, on all matters that the Company's shareholders are permitted to vote upon, equal to .7% of all outstanding securities that are eligible to vote at the time of such shareholder action for each share of Series C Preferred (.7% X 75 shares = 52.5% of total vote).

On January 31, 2014 the Company issued 75 shares of Series C Preferred Stock valued at \$24,000 to its Chief Executive Officer, Bill Hodson in exchange for a \$15,000 as stock based compensation to the Executive by the Company. In addition the remaining \$9,000 was recorded as a loss on settlement of debt.

Class A Common Stock

Effective February 3, 2014 the Board of Directors recommended, and the Company’s shareholders approved by written consent, the creation of 1,000,000 shares of Class A Common Stock. Each share of Class A Common Stock is entitled to convert into one (1) share of regular common stock at any time at the option of the holder and to cast two hundred (200) votes on all matters as to which holders of the common stock, voting together as a class, are entitled to vote.

On February 3, 2014 the Company issued 1,000,000 shares of Class A Common Stock valued at \$67,000 to its Chief Executive Officer, Bill Hodson in exchange for \$20,596 owed to the Executive by the Company. In addition, the \$4,404 was recorded as a stock based compensation and \$42,000 was recorded as a loss on settlement of debt.

On February 6, 2014 Bill Hodson converted his 1,000,000 shares of Class A Common Stock into 1,000,000 shares of regular Common Stock. Following the conversion the Class A Common Stock is no longer outstanding.

Amendment of Articles of Incorporation

Effective February 3, 2014, following the enactment of the First Amendment, Article Eight of the Company's Articles of Incorporation was amended to (i) increase the authorized common stock from 100,000,000 shares to 150,000,000 shares, and (ii) to permit the holders of the Corporation's outstanding Preferred Stock voting together as a class to effect a change in the number of authorized shares of regular Common Stock or Series A Common Stock by amending the Articles of Incorporation without the affirmative vote, either separately or as a class, of the holders of regular Common Stock and Series A Common Stock.

As of September 30, 2014 and December 31, 2013, the Company had 148,758,559 and 86,807,868 shares of its common stock issued and outstanding, respectively.

As of September 30, 2014 and December 31, 2013, the Company had 0 shares of its Class A common stock issued and outstanding.

As of September 30, 2014 and December 31, 2013, the Company had 32,820 and 134,724 shares of its series B preferred stock issued and outstanding, respectively.

As of September 30, 2014 and December 31, 2013, the Company had 75 and 0 shares of its series C preferred stock issued and outstanding, respectively.

Effective July 24, 2014, Article Eight of the Company's Articles of Incorporation was amended to increase the authorized common stock from 150,000,000 shares to 200,000,000 shares.

Warrants

The following table summarizes the changes in warrants outstanding and related prices for the shares of the Company's common stock issued to shareholders at September 30, 2014:

Exercise Price	Number Outstanding	Warrants Outstanding Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Warrants Exercisable Weighted Average Exercise Price
\$0.20 - 1.00	6,680,002	1.42	\$ 0.90	6,680,002	\$ 0.90

Transactions involving the Company's warrant issuance are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2012	5,805,002	\$ 1.00
Issued	875,000	0.20
Exercised	—	—
Expired	—	—
Outstanding at December 31, 2013	6,680,002	\$ 0.90
Issued	—	—
Exercised	—	—
Expired	—	—
Outstanding at September 30, 2014	6,680,002	\$ 0.90

NOTE 12 - CONCENTRATIONS

The following table sets forth information as to each customer that accounted for 10% or more of the Company's revenues for the nine months ended September 30, 2014 and 2013. At September 30, 2014, three customers accounted for 46% of the Company's total revenue. At September 30, 2013, three customers accounted for 52% of the Company's total revenue.

Customer	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
A	22	% -
B	13	% -
C	11	% -
D		