WORLDS INC
Form 10-Q
November 13, 2015

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

FORM 10-Q

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

For the Quarterly Period ended September 30, 2015

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

For the transition period from __________________ to __________________

Commission File number 0-24115

WORLDS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**22-1848316**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

11 Royal Road
Brookline, MA 02445
(Address of Principal Executive Offices)

(617) 725-8900
(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer [ ] Accelerated filer [ ]

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

(Do not check if a 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 [X]

As of October 21, 2015, 113,446,694 shares of the Issuer's Common Stock were outstanding.

Worlds Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Worlds Inc.
Balance Sheets
September 30, 2015 and December 31, 2014

	Unaudited September 30, 2015	Audited December 31, 2014
ASSETS:		
Current Assets		
Cash and cash equivalents	$6,110	$27,661
Total Current Assets	6,110	27,661
Total assets	$6,110	$27,661
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
Current Liabilities		
Accounts payable	$797,908	$797,908
Accrued expenses	2,206,361	2,287,977
Due to related party	42,560	9,416
Derivative liability	216,718	426,591
Notes payable	773,279	773,279
Notes Payables	460,000	325,000
Convertible notes payable (net of $103,482 discount at September 30, 2015 and $13,822 discount at December 31, 2014)	196,518	11,803
Total Current Liabilities	4,693,344	4,631,974
Stockholders' (Deficit)		
Common stock (Par value $0.001 authorized 150,000,000 shares, issued and outstanding 113,446,694 and 96,851,941 at September 30, 2015 and December 31, 2014, respectively)	113,447	96,852
Additional paid in capital	34,549,341	31,409,427
Common stock-warrants	97,869	97,869
Accumulated deficit	(39,447,891)	(36,208,461)
Total stockholders deficit	(4,687,233)	(4,604,312)

Total Liabilities and stockholders' deficit	$6,110	$27,661

The accompanying notes are an integral part of these financial statements

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Worlds Inc.
Statements of Operations
For the nine and three Months Ended September 30, 2015 and 2014

	Unaudited Nine months ended September 30, 2015	2014	Unaudited Three months ended September 30, 2015	2014
Revenues				
Revenue	$—	$—	$—	$—
Total Revenue	—	—	—	—
Cost and Expenses				
Cost of Revenue	—	—	—	—
Gross Profit/(Loss)	—	—	—	—
Option Expense	62,629	66,451	—	—
Common Stock issued for services rendered	80,400	75,908	—	—
Selling, General & Admin.	276,528	266,821	140,126	105,902
Salaries and related	166,794	152,788	54,702	48,125
Operating loss	(586,350)	(561,969)	(194,828)	(154,027)
Other Income (Expense)				
Loss on settlement of convertible notes	(2,336,035)	—	—	—
Gain (Loss) on change in fair value of derivative liability	(28,666)	(153,771)	281,265	4,433
Derivative liabilities expense	(31,434)	—		
Interest Expense	(226,945)	(342,925)	(113,100)	(43,966)
Debt issuance expense	(30,000)	—	—	—
Net Income/(Loss)	$(3,239,430)	$(1,058,665)	$(26,664)	$(193,560)
Weighted Average Loss per share	$(0.03)	$(0.01)	$**	$ **
Weighted Average Common Shares Outstanding	110,289,989	95,387,270	113,268,877	96,606,082

**=less than $0.01

The accompanying notes are an integral part of these financial statements

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Worlds Inc.
Statements of Cash Flows
Nine Months Ended September 30, 2015 and 2014

	Unaudited 9/30/2015	Unaudited 9/30/2014
Cash flows from operating activities:		
Net (loss)	$(3,239,430)	$(1,058,665)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Loss on settlement of convertible notes	2,336,035	—
Fair value of stock options issued	62,629	66,451
Common stock issued for services rendered	80,400	75,908
Amortization of discount to note payable	210,340	320,136
Promissory note payable	—	1,000
Changes in fair value of derivative liabilities	28,666	153,771
Derivative liabilities expense	31,434	—
Accounts payable and accrued expenses	229	154,918
Due from/to related party	33,144	205,525
Net cash (used in) operating activities:	(456,552)	(80,955)
Cash flows from financing activities		
Proceeds from issuance of note payable	135,000	100,000
proceeds from convertible note payable	300,000	—
Net cash provided by financing activities	435,000	100,000
Net increase/(decrease) in cash and cash equivalents	(21,552)	19,045
Cash and cash equivalents, including restricted, beginning of year	27,661	22,132
Cash and cash equivalents, including restricted, end of period	$6,110	$41,178
Non-cash financing activities		
Issuance of Common stocks to retire notes payable and warrant	653,687	—
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$—	$—
Income taxes	$—	$—

The accompanying notes are an integral part of these financial statements

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NOTES TO FINANCIAL STATEMENTS

Nine Months Ended September 30, 2015

(Unaudited)

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF ACCOUNTING POLICIES

Description of Business

On May 16, 2011, the Company transferred, through a spin-off to its then wholly owned subsidiary, Worlds Online Inc., the majority of its operations and related operational assets. The Company retained its patent portfolio which it intends to continue to increase and to more aggressively enforce against alleged infringers. The Company also entered into a License Agreement with Worlds Online Inc. to sublicense its patented technologies.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which contemplates continuation of the Company as a going concern. The Company has always been considered a developmental stage business, has incurred significant losses since its inception and has had minimal revenues from operations. The Company will require substantial additional funds for development and enforcement of its patent portfolio. There can be no assurance that the Company will be able to obtain the substantial additional capital resources to pursue its business plan or that any assumptions relating to its business plan will prove to be accurate. The Company has not been able to generate sufficient revenue or obtain sufficient financing which has had a material adverse effect on the Company, including requiring the Company to reduce operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. For the past year the Company has been operating at a significantly reduced capacity, with only one full time employee, performing primarily consulting services and licensing software and using consultants to perform any additional work that may be required.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of highly liquid money market instruments, which have original maturities of three months or less at the time of purchase.

Due to Related Party

Due to related party is comprised of cash payments made by Worlds Online Inc. on behalf of Worlds Inc. for shared operating expenses.

Revenue Recognition

Effective for the second quarter of 2011, the Company spun off its online businesses to Worlds Online Inc. The Company’s sources of revenue after the spin off is anticipated to be from sublicenses of the patented technology by Worlds Online and any revenue that may be generated from enforcing its patents. The Company recognizes revenue when all of the following criteria are met: evidence of an arrangement exists such as a signed contract, delivery has occurred, the price is fixed or determinable, and collectibility is reasonable assured. This will usually be in the form of a receipt of a customer’s acceptance indicating the product has been completed to their satisfaction except for development work and service revenue which is recognized when the services have been performed.

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Research and Development Costs

Research and development costs are charged to operations as incurred.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on a straight line basis over the estimated useful lives of the assets ranging from three to five years. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income. Maintenance and repairs are charged to expense in the period incurred.

Impairment of Long Lived Assets

The Company evaluates the recoverability of its fixed assets and other assets in accordance with section 360-10-15 of the FASB Accounting Standards Codification for disclosures about Impairment or Disposal of Long-Lived Assets. Disclosure requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds its expected cash flows. If so, it is considered to be impaired and is written down to fair value, which is determined based on either discounted future cash flows or appraised values. The Company adopted the statement on inception. No impairments of these types of assets were recognized during the nine months ended September 30, 2015.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair value method following the guidance set forth in section 718-10 of the FASB Accounting Standards Codification for disclosure about Stock-Based Compensation. This section requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award- the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

Income Taxes

The Company accounts for income taxes under Section 740-10-30 of the FASB Accounting Standards Codification. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

Notes Payable

The Company has $773,279 in short term notes outstanding at September 30, 2015 and December 31, 2014. The company has $460,000 and $325,000 in notes outstanding at September 30, 2015 and December 31, 2014, respectively.

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Comprehensive Income (Loss)

The Company reports comprehensive income and its components following guidance set forth by section 220-10 of the FASB Accounting Standards Codification which establishes standards for the reporting and display of comprehensive income and its components in the financial statements. There were no items of comprehensive income (loss) applicable to the Company during the period covered in the financial statements.

Loss Per Share

Net loss per common share is computed pursuant to section 260-10-45 of the FASB ASC. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. As of September 30, 2015, there were 9,050,000 options whose effect is anti-dilutive and not included in diluted net loss per share for September 30, 2015. The options and warrants may dilute future earnings per share.

Commitments and Contingencies

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies. 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. Management does not believe, based upon information available at this time that these matters will have a material adverse effect on the Company’s financial position, results of operations or cash flows. However, there is no assurance that such matters will not materially and adversely affect the Company’s business, financial position, and results of operations or cash flows.

During 2000 the Company was involved in a lawsuit relating to unpaid consulting services. In April, 2001 a judgment against the Company was rendered for approximately $205,000. As of September 30, 2015, and 2014 the Company recorded a reserve of $205,000 for this lawsuit, which is included in accrued expenses in the accompanying balance sheets.

Risk and Uncertainties

The Company is subject to risks common to companies in the technology industries, including, but not limited to, litigation, development of new technological innovations and dependence on key personnel.

Off Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Uncertain Tax Positions

The Company did not take any uncertain tax positions and had no adjustments to unrecognized income tax liabilities or benefits pursuant to the provisions of Section 740-10-25 for the nine months ended September 30, 2015 and 2014, respectively.

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Fair Value of Financial Instruments

The Company measures assets and liabilities at fair value based on an expected exit price as defined by the authoritative guidance on fair value measurements, which represents the amount that would be received on the sale of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level.

The following are the hierarchical levels of inputs to measure fair value:

- Level 1 – Observable inputs that reflect quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Unobservable inputs reflecting the Company’s assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The carrying amounts of the Company’s financial assets and liabilities, such as cash, other receivables, accounts payable & accrued expenses, due to related party, notes payable and notes payables, approximate their fair values because of the short maturity of these instruments. The Company's convertible notes payable are measured at amortized cost.

The Company accounts for its derivative liabilities, at fair value, on a recurring basis under level 3. See Note 5.

Embedded Conversion Features

The Company evaluates embedded conversion features within convertible debt under ASC 815 “Derivatives and Hedging” to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings. If the conversion feature does not require derivative treatment under ASC 815, the instrument is evaluated under ASC 470-20 “Debt with Conversion and Other Options” for consideration of any beneficial conversion feature.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. The Company evaluates all of its financial instruments, including stock purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income.

For option-based simple derivative financial instruments, the Company uses the Black-Scholes option-pricing model to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period.

Subsequent Events

The Company evaluated for subsequent events through the issuance date of the Company’s financial statements.

Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements up to ASU 2015-16, and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

NOTE 2 - GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Since its inception, the Company has had periods where it had only minimal revenues from operations. There can be no assurance that the Company will be able to obtain the additional capital resources to fully implement its business plan or that any assumptions relating to its business plan will prove to be accurate. The Company is pursuing sources of additional financing and there can be no assurance that any such financing will be available to the Company on commercially reasonable terms, or at all. Any inability to obtain additional financing will likely have a material adverse effect on the Company, including possibly requiring the Company to reduce and/or cease operations.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 - PRIVATE PLACEMENTS OF EQUITY

During the nine months ended September 30, 2015, the company issued 15,608,696 common shares to the Class C Note holders in order to terminate the litigation between us, terminate all agreements between us, cancel all warrants we have previously issued to them as well as the outstanding balance of the Class C Notes. In order to have sufficient shares to deliver, we implemented the previously authorized amendment to our certificate of incorporation and increased our authorized common stock to one hundred fifty million shares.

During the nine months ended September 30, 2015, the Company issued an aggregate of 804,000 shares of common stock as payment for services rendered, an aggregate value of $80,400

During the nine months ended September 30, 2015, the Company issued 182,057 shares to an officer of the company as payment for an accrued expense in the amount of $24,506.07.

During the nine months ended September 30, 2014, the Company issued 3,128,592 common shares upon the conversion of $424,375 of the convertible notes payable into common stock.

During the nine months ended September 30, 2014, the Company issued an aggregate of 450,000 shares of common stock as payment for services rendered with an aggregate value of $63,300. The Company also recognized stock issued for services in the amount of $12,609 for shares issued in year 2013 but amortized in this period.

During the nine months ended September 30, 2014, the Company issued 63,526 shares to an officer of the company as payment for an accrued expense in the amount of $9,625.

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NOTE 4 - NOTES PAYABLE

We issued an aggregate of $2.4 million face amount of Senior Secured Convertible Notes (the "Notes"). The Notes are divided into Series A, Series B and Series C with the Series A and B Notes aggregating to $1.95 million and the Series C Notes aggregating to $450,000. The Series A and Series B Notes were exchanged by the return of the face amount of the Notes for 7 million shares of common stock of the Company. The remaining Series C Note carried a 14% annual interest rate upon default and is payable on March 13, 2016. The Company had determined that the conversion feature of the Notes represent an embedded derivative since the Notes are convertible into a variable number of shares upon conversion. On January 23, 2015 we entered into an agreement with the Series C note holders to, among other things, terminate the litigation between us, terminate all agreements between us, cancel all warrants we have previously issued to them as well as the outstanding balance of the Class C Note, provide for mutual releases and delivery of fifteen million six hundred and eight thousand and six hundred and ninety six shares of our common stock. In order to have sufficient shares to deliver, we implemented the previously authorized amendment to our certificate of incorporation and increased our authorized common stock to one hundred fifty million shares.

The Notes are classified as a derivative liability and not a note payable, see Note 9 below.

Notes payable at September 30, 2015 consist of the following:

Unsecured note payable to a shareholder bearing 8% interest. Entire balance of principal and unpaid interest due on demand	$124,230
Unsecured note payable to a shareholder bearing 10% interest Entire balance of principal and unpaid interest due on demand	$649,049
Promissory notes	$460,000
Total current	$1,233,279
2015	$1,233,279
2016	$-0-
2017	$-0-
2018	$-0-
2019	$-0-
	$1,233,279

We issued promissory notes in the amount of $135,000 during the nine months ended September 30, 2015. One of the promissory notes in the amount of $25,000 was in lieu of payment of cash for an outstanding balance due to a consultant of the Company. The promissory notes carry a 6% annual interest rate and are payable upon the earlier of (a) 24 months from the date of the promissory note or (b) the Company reaching a settlement(s) on a patent infringement claim(s) and receiving an aggregate of at least $2 million net proceeds from such settlement(s).

The holders of the promissory notes shall receive repayment in the full face amount of the note from the initial $500,000 the Company actually receives from the net proceeds of its patent infringement claim(s) or from the net proceeds of a public offering. In addition the holder shall receive a preferred return (i) in an amount equal to up to 200% of the initial face amount of the note out of available cash by sharing with all other investors in this series of notes in the allocation of 50% of the available cash received by the Company form $2M - $4M and (ii) in an amount equal to up to 100% of the initial face amount of the note out of available cash by sharing with all other investors in this series of notes in the allocation of 25% of the available cash received by the Company from $4M - $6M. In other words, if the Company collects $6M in the net proceeds of available cash, the holder will receive a return equal to 400% of its investment.

We had issued promissory notes in the amount of $325,000 during the year ended December 31, 2014. One of the promissory notes in the amount $50,000 was in lieu of payment of cash for an outstanding balance due to a consultant of the Company. The promissory notes carry the same terms as the notes issued in 2015.

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NOTE 5 - DERIVATIVE LIABILITIES

(A) Convertible Notes Issued in May 8, 2015

The Company identified conversion features embedded within convertible debt issued in May 8, 2015. The Company has determined that the features associated with the embedded conversion option, in the form a ratchet provision, should be accounted for at fair value, as a derivative liability, as the Company cannot determine if a sufficient number of shares would be available to settle all potential future conversion transactions.

As a result of the application of ASC No. 815, the fair value of the ratchet feature related to convertible debt and warrants is summarized as follow:

	Derivative Liabilities
Fair value at the commitment date-May 8, 2015	**$331,434**
Fair value mark to market adjustment	114,717
Balances as of September 30, 2015	216,717

The fair value at the commitment and re-measurement dates for the Company’s derivative liabilities were based upon the following management assumptions as of September 30, 2015:

	Commitment Date	Remeasurement Date
Expected dividends	0%	0%
Expected volatility	167%	183%
Expected term	0.5 years	0.1 years
Risk free interest rate	0.08%	0.01%

(B) Settlement of Derivative Liabilities

On January 23, 2015 we entered into an agreement with Hudson Bay IP Opportunities Master Fund LP to, among other things, terminate the litigation between us, terminate all agreements between us, cancel all warrants we have previously issued to them as well as the outstanding balance of the Class C Note, provide for mutual releases and our delivery of eight million shares of our common stock, of which seven million shares will be subject to certain volume limitations upon resale. In order to have sufficient shares to deliver, we implemented the previously authorized amendment to our certificate of incorporation and increased our authorized common stock to one hundred fifty million shares. We entered into essentially similar agreements with the other holders of our Class C Notes, albeit for less shares. As a result of the settlement, the company recorded a loss on settlement of convertible notes of $2,336,035 during the six months ended June 30, 2015.

On March 20, 2013 the Company entered into strategic financing agreements with several institutional investors that could provide the Company with up to $2.3 million of debt financing based upon the amount of conversions and redemptions. The transaction documents provide, among other things, that (i) the investors will receive five year warrants in an amount equal to 100% of the number of shares of our common stock the investors would receive if the Notes (defined below) were converted on March 13, 2013, at an exercise price of $0.50 per share, (ii) $1.950 million of the funds will deposited in one of our bank accounts but will be subject to a control account agreement which will provide that the Company can only withdraw funds from the account as the investors convert or redeem the Notes, (iii) the investors have demand and piggy-back registration rights for the shares of common stock underlying the warrants and Notes, (iv) the Notes will be secured by a first priority security interest in all of our assets, other than our patents, (v) each investor may not convert any Note or exercise any warrants if doing so will cause the investor to own more than 4.99% of our outstanding common stock at any time, although under certain circumstances they can each own up to 9.99% of our outstanding common stock, (vi) we paid $40,000 of the investors' legal fees incurred with respect to this transaction, and (vii) for the next three years the investors have a right to participate in up to 50% of any of our future financings. The warrants and Notes contain standard anti-dilution provisions and the Securities Purchase Agreements contains standard covenants for a financing of this nature. In the event the Company acquires any subsidiaries while the Notes are outstanding, such subsidiaries will be obligated to guaranty the Notes and any other obligations we owe to the investors pursuant to the transaction documents.

On July 15, 2013 we entered into Amendment and Exchange Agreements with each of the existing holders of our Series A, B and C Senior Secured Convertible Notes and related warrants to purchase our common stock, which securities were originally issued pursuant to that certain Securities Purchase Agreement dated as of March 14, 2013 ("Securities Purchase Agreement"), by and among us and such holders.

Each Exchange Agreement provides for, among other things, that:

(i) Various restrictive provisions of the Securities Purchase Agreement and the Class C Senior Secured Convertible Notes were either eliminated by amendment or waived;

(ii) the related warrants, initially exercisable into an aggregate of 4,535,714 shares of Common Stock at an initial exercise price of $0.50, were exchanged for new warrants, initially exercisable into an aggregate of 4,535,714 shares of Common Stock at an initial exercise price of $1.00; and

(iii) the Series A and B Senior Secured Convertible Notes, with an aggregate original principal amount of $1,950,000, were exchanged for an aggregate of 7 million shares of our common stock and the payment by the Company to such holders of an aggregate of approximately $1,951,400 (the remaining cash amount held in a control account pursuant to the terms and conditions of the Series A and B Senior Secured Convertible Notes)

The Company has determined that the conversion feature of the Note represent an embedded derivative since the Note is convertible into a variable number of shares upon conversion. Accordingly, the Note is not considered to be conventional debt under EITF 00-19 and the embedded conversion feature must be bifurcated from the debt host and accounted for as a derivative liability. Accordingly, the fair value of this derivative instrument has been recorded as a liability on the balance sheet with the corresponding amount recorded as a discount to the Note. Such discount will be accreted from the grant date to the maturity date of the Note. The change in the fair value of the derivative liability will be recorded in other income or expenses in the statement of operations at the end of each period, with the offset to the derivative liability on the balance sheet. The beneficial conversion feature included in the Note resulted in an initial debt discount of $450,000 and an initial loss on the valuation of derivative liabilities of $96,119 based on the initial fair value of the derivative liability of $546,119. The fair value of the embedded derivative liability was calculated at grant date utilizing the following assumptions:

Grant Date	Fair Value	Term (Years)	Assumed Conversion Price	Market Price on Grant Date	Volatility Percentage	Risk-free Rate
3/20/2013	$546,119	3.0	$ 0.326	$0.465	238 %	0.0038

During the three months ended March 31, 2015 the Company settled a lawsuit brought forth by the note holders, effectively terminating and canceling all remaining agreements, warrants and notes. As a result of the settlement, the company recorded a loss on settlement of convertible notes of $2,336,035 during the nine months ended September 30, 2015.

As of the date of the settlement with the noteholders, the Company revalued the embedded derivative liability and recorded a loss on change in fair value of derivative liability of $143,383. For the period from December 31, 2014 to September 30, 2015, the Company decreased this derivative liability to $0.

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NOTE 6 - DEBT DISCOUNT

The debt discount was recorded in 2015 and pertains to convertible debt issued that contains ratchet features that are required to be reported at fair value.

Debt discount is summarized as follows:

	September 30, 2015
Debt discount as of December 31, 2014	$13,822
Amortization due to settlement	(13,822)
Debt discount as of March 31, 2015	—
Debt discount on May 8, 2015 Convertible note payable	$300,000
Accumulated amortization	(196,158)
Debt discount on notes payable	$103,482

Amortization of debt discount on notes payable for the nine months ended September 30, 2015 and September 30, 2014 was $196,158 and $289,345, respectively.

NOTE 7 - CONVERTIBLE DEBENTURES

On May 8, 2015, the Company issued convertible debentures to certain accredited investors. The total principal amount of the debentures is $300,000 and matures on November 8, 2015 with a zero percent interest rate. The debentures are convertible into shares of the Company's common stock at the lower of the fixed price ($0.89) or fifty five percent (55%) of the average if the three lower trading price for 20 trading days prior to conversion.

The Company signed a Forbearance Agreement on October 26, 2015. Details are in the Subsequent Event footnote.

As of September 30, 2015, the aggregate carrying value of the debentures was $196,518 net of debt discounts of $103,482.

NOTE 8 – STOCK OPTIONS

During the nine months ended September 30, 2015, the Company issued 300,000 options to the Company's directors. The directors, Bernard Stolar, Robert Fireman and Edward Gildea each received 100,000 options for serving as board members in 2015. An additional 300,000 options were issued to Christopher Ryan the Chief Financial Officer of the Company.

During the nine months ended September 30, 2015, the Company recorded an option expense of $62,629 equal to the estimated fair value of the options at the date of grants. The fair market value was calculated using the Black-Scholes options pricing model, assuming approximately 1.63% risk-free interest, 0% dividend yield, 175% volatility, and expected life of 5 years.

No stock options were exercised during the nine months ended September 30, 2015.

On January 23, 2015 we entered into an agreement with the Class C note holders who held four million five hundred thirty five thousand seven hundred and fourteen warrants to purchase our common stock. The settlement agreement, among other things, cancelled all warrants we have previously issued to them.

During the nine months ended September 30, 2014, the Company issued 450,000 options to the Company's directors. The directors, Bernard Stolar, Robert Fireman and Edward Gildea each received 100,000 options for serving as board members in 2014. Edward Gildea joined the board on January 10, 2014 and received an additional 150,000 options for joining the Company's board.

During the nine months ended September 30, 2014, the Company recorded an option expense of $66,451 equal to the estimated fair value of the options at the date of grants. The fair market value was calculated using the Black-Scholes options pricing model, assuming approximately 0.93% risk-free interest, 0% dividend yield, 210% volatility, and expected life of 5 years.

Stock Warrants and Options
Stock warrants/options outstanding and exercisable on September 30, 2015 are as follows:

Exercise Price per Share	Shares Under Option/warrant	Remaining Life in Years
Outstanding		
$0.19	200,000	2.25

$0.155	200,000	3.25
$0.14	250,000	3.25
$0.115	300,000	2.00
$0.11	600,000	4.75
$0.070	7,500,000	2.00
$		
Exercisable		
$0.19	200,000	2.25
$0.115	200,000	3.25
$0.14	250,000	3.25
$0.115	300,000	2.00
$0.070	7,500,000	2.00

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NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Company is committed to an employment agreement with its President and CEO, Thom Kidrin. The agreement, dated as of August 30, 2012, is for five years with a one-year renewal option held by Mr. Kidrin. The agreement provides for a base salary of $175,000, which increases 10% on September 1 of each year; a monthly car allowance of $500; an annual bonus equal to 2.5% of Pre-Tax Income (as defined in the agreement); an additional bonus as follows: $75,000, if Pre-Tax Income for the year is between 150% and 200% of the prior fiscal year's Pre-Tax Income or (B) $100,000, if Pre-Tax Income for the year is between 201% and 250% of the prior fiscal year's Pre-Tax Income or (C) $200,000, if Pre-Tax Income for the year is 251% or greater than the prior fiscal year's Pre-Tax Income, but in no event shall this additional bonus exceed five (5%) percent of Pre-Tax Income for such year; payment of up to $10,000 in life insurance premiums; options to purchase 7.5 million shares of Worlds Inc. common stock at an exercise price of $0.070 per share, all of which vested on August 30, 2012; a death benefit of at least $2 million dollars; and a payment equal to 2.99 times his base amount (as defined in the agreement) in the event of a Change of Control (as defined in the agreement). The agreement also provides that Mr. Kidrin can be terminated for cause (as defined in the agreement) and that he is subject to restrictive covenants for 12 months after termination.

NOTE 10 - RELATED PARTY TRANSACTIONS

On May 16, 2011, the Company transferred, through a spin-off to its then wholly owned subsidiary, Worlds Online Inc., the majority of its operations and related operational assets. The Company retained its patent portfolio which it intends to continue to increase and to more aggressively enforce against alleged infringers. The Company also entered into a License Agreement with Worlds Online Inc. to sublicense its patented technologies.

Due to related party is comprised of cash payments for operating expenses made by Worlds Online Inc. on behalf of Worlds Inc. The balance at September 30, 2015 is $42,560 and the balance on December 31, 2014 is $9,416.

NOTE 11 - PATENTS

Worlds Inc. currently has nine patents, 6,219,045 - 7,181,690 - 7,493,558 – 7,945,856, - 8,082,501, – 8,145,998 – 8,161,383, – 8,407,592 and 8,640,028. On March 30, 2012, the Company filed a patent infringement lawsuit against Activision Bizzard Inc., Blizzard Entertainment Inc. and Activision Publishing Inc. in the United States District Court for the District of Massachusetts. Susman Godfrey LLP is lead counsel for the Company.

There can be no assurance that the Company will be successful in its ability to prosecute its IP portfolio or that we will be able to acquire additional patents.

See Part II Other Information, Item 1. Legal Proceedings for current status of Litigation.

NOTE 12 – SUBSEQUENT EVENT

The Company signed a Forbearance Agreement on October 26, 2015 for the 10% Convertible Debenture with the principal amount of $300,000 that was due November 8, 2015. The new maturity date of the debenture is May 8, 2016.

On October 30, 2015, the company entered into a new Debenture with the Lender, face amount of $405,000 having similar terms as the first Convertible Debenture with a maturity date of April 30, 2016. The debenture included a forbearance fee of $90,000 and had an original issue discount of 10%.

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Item 2. Management's Discussions and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

When used in this Form 10-Q and in future filings by the Company with the Commission, the words or phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. These factors include, but are not limited to, changes that may occur to general economic and business conditions; changes in political, social and economic conditions in the jurisdictions in which we operate; changes to regulations that pertain to our operations; changes in technology that render our technology relatively inferior, obsolete or more expensive compared to others; delays in the delivery of broadband capacity to the homes and offices of persons who use our services; general disruptions to Internet service; and the loss of customer faith in the Internet as a means of commerce.

The following discussion should be read in conjunction with the unaudited financial statements and related notes which are included under Item 1.

We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

Overview

General

Starting in mid-2001 we were not able to generate enough revenue to sustain full operations and other sources of capital were not available. As a result, we have had to significantly curtail our operations since that time and at times almost halt them all together. Since mid-2007, as more funds became available from our financings, we were able to increase operations and become more active operationally.

On May 16, 2011, we transferred, through a spin-off to our then wholly owned subsidiary, Worlds Online Inc., the majority of our operations and related operational assets. We retained our patent portfolio which we intend to continue to increase and to more aggressively enforce against alleged infringers. We also entered into a License Agreement with Worlds Online Inc. to sublicense patented technologies.

At present, the Company’s anticipated sources of revenue after the spin off will be from sublicenses of the patented technology by Worlds Online and any revenue that may be generated from enforcing its patents.

Revenues

We generated no revenue during the quarter because we transferred the operations of the Company to Worlds Online Inc. and our other anticipated revenue generation streams did not produce any income during the quarter.

We classify our expenses into two broad groups:

- cost of revenues; and

- Selling, general and administration.

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Liquidity and Capital Resources

We have had to limit our operations since mid 2001 due to a lack of liquidity. However, we were able to issue equity and convertible debt in the last few years and raise small amounts of capital from time to time that enabled us to begin upgrading our technology, develop new products and actively solicit additional business. We continue to pursue additional sources of capital though we have no current arrangements with respect to, or sources of, additional financing at this time and there can be no assurance that any such financing will become available. If we cannot raise additional capital, form an alliance of some nature with another entity, or start to generate sufficient revenues, we may need to once again scale back operations.

RESULTS OF OPERATIONS

Our net revenues for each of the three months ended September 30, 2015 and 2014 were $0. All the operations were transferred over to Worlds Online Inc. in the spin off. The Company's future sources of revenue after the spin off are anticipated to be from sublicenses of the patented technology to Worlds Online Inc.'s customers and any revenue that may be generated from enforcing our patents in litigation or otherwise.

Three months ended September 30, 2015 compared to the three months ended September 30, 2014

Revenue is $0 for the three months ended September 30, 2015 and 2014. Revenue is $0 because the online business operations including the VIP subscription business has been transferred to Worlds Online Inc. The business up to the spin off continued to run in a severely diminished mode due to the lack of liquidity. Post spin off we still need to raise a sufficient amount of capital to provide the resources required that would enable us to continue running the business.

Cost of revenues is $0 in the three months ended September 30, 2015 and 2014.

Selling general and administrative (S, G & A) expenses increased by $34,224 from $105,902 to $140,126 for the three months ended September 30, 2015. Increase is due to the activity around the patent litigation. Salaries and related increased by $6,577 to $54,702 from $48,125 for the three months ended September 30, 2015. Increase is due to the CEO's salary based on the terms of his employment agreement.

For the three months ended September 30, 2015, the company had a gain on change in fair value of derivative liability of $281,265 and interest expense of $113,100. For the three months ended September 30, 2014, the company had a gain on change in fair value of derivative liability of $4,433 and interest expense of $43,966, both related to the issuance of the senior secured convertible notes that are required to be recorded as a derivative liability.

As a result of the foregoing, we realized a net loss of $26,664 for the three months ended September 30, 2015 compared to a loss of $193,560 in the three months ended September 30, 2014, a decreased loss of $166,896.

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Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Revenue was $0 and $0 for the nine months ended September 30, 2015 and 2014. Revenue is $0 because the online business operations including the VIP subscription business has been transferred to Worlds Online Inc. The business up to the spin off continued to run in a severely diminished mode due to the lack of liquidity. Post spin off we still need to raise a sufficient amount of capital to provide the resources required that would enable us to continue running the business.

Cost of revenues is $0 in the nine months ended September 30, 2015 and 2014.

Selling general and administrative expenses increased by $9,706, from $266,821 to $276,528 for the nine months ended September 30, 2015. Increase is due to greater overall level of activity surrounding the lawsuit.

Common stock issued for services rendered increased by $4,492 to $80,400 in 2015 compared to $75,908 for 2014. The Company incurred a broker fee in arranging for the funding during the period which was paid by the issuance of common stock. In 2014 there was one strategic business consulting and advice agreement for common stock.

Salaries and related increased by $14,006 to $166,794 from $152,788 for the nine months ended September 30, 2014. The increase is due to an increase in the CEO's salary based on the terms of his employment agreement.

For the nine months ended September 30, 2015, the Company recorded an option expense of $62,629, equal to the estimated fair value of the options at the date of grants. The option expense was due to 600,000 options granted to the Company's directors and an officer of the company. The directors, Bernard Stolar, Robert Fireman and Edward Gildea each received 100,000 options for serving as board members in 2015. Christopher Ryan, an officer of the company received 300,000 options. For the nine months ended September 30, 2014, the Company recorded an option expense of $66,451, equal to the estimated fair value of the options at the date of grants. The option expense was due to 450,000 options granted to the Company's directors during the first quarter of 2014. The directors, Bernard Stolar, Robert Fireman and Edward Gildea each received 100,000 options for serving as board members in 2014. Edward Gildea joined the board on January 10, 2014 and received an additional 150,000 options for joining the Company's board.

For the nine months ended September 30, 2015 we had a loss on settlement of convertible notes of $2,336,035.

For the nine months ended September 30, 2015, the company had a loss on change in fair value of derivative liability of $28,666, interest expense of $226,945 and a derivative liabilities expense of $31,434. For the nine months ended September 30, 2014, the company had a loss on change in fair value of derivative liability of $153,771 and interest expense of $342,925 both related to the issuance of the senior secured convertible notes that are required to be recorded as a derivative liability.

As a result of the foregoing we had a net loss of $3,239,430 for the nine months ended September 30, 2015 compared to a loss of $1,058,665 in the nine months ended September 30, 2014.

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Liquidity and Capital Resources

At September 30, 2015, our cash and cash equivalents were $6,110. We raised an aggregate of $435,000 from issuing notes and convertible notes payable during the nine months ended September 30, 2015.

There were no capital expenditures in the nine months ended September 30, 2015.

Historically, our primary cash requirements have been used to fund the cost of operations, development of our products and patent protection, with additional funds having been used in promotion and advertising and in connection with the exploration of new business lines.

The funds raised in our 2014 and 2015 financings were and will be used to develop new products and services, enhance our patent portfolio, pay salaries to management and pay professional fees to our attorneys and auditors to prepare and file reports with the Securities and Exchange Commission. We hope to raise additional funds to be used for further developing our portfolio of patents and to document our technology in order to enforce our patents where there is infringement. No assurances can be given that we will be able to raise any additional funds.

Item 4. Controls And Procedures

As of September 30, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015. The above statement notwithstanding, you are cautioned that no system is foolproof.

Changes in Internal Control Over Financial Reporting

During the quarter covered by this report there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Judge Denise Casper of The U.S. District Court, District of Massachusetts has issued the Joint Pretrial Schedule for the Worlds Inc. vs. Activision Blizzard Inc. et al patent infringement lawsuit with the following dates:

1. Fact discovery to be completed by 2/1/16.
2. Opening expert reports by 3/1/16.
3. Rebuttal expert reports by 4/1/16.
4. Expert discovery to be completed by 4/22/16.
5. Dispositive/Daubert Motions to be filed by 5/20/16.
6. Opposition to Dispositive/Daubert Motions to be filed by 6/20/16.
7. Reply ISO Dispositive/Daubert Motions to be filed by 7/11/16.
8. Hearing on Dispositive/Daubert Motions set for 7/20/16 at 2:00PM.
9. Initial Pretrial Conference set for 9/29/16 at 2:00PM.

On the Inter Party Review matter before the Patent Trial Board (PTAB), the company has submitted Preliminary Response's to the PTAB and anticipates a determination on whether a full review will be initiated before the end of the year.

Item 1A. Risk Factors

We are not obligated to disclose our risk factors in this report, however, limited information regarding our risk factors appears in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Forward-Looking Statements" contained in this Quarterly Report on Form 10-Q and in "Item 1A. RISK FACTORS" of our 2014 Annual Report on Form 10-K. There have been no material changes from the risk factors previously disclosed in our 2014 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Statement required by 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Statement required by 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS* XBRL	Instance Document
101.SCH*XBRL	Taxonomy Extension Schema
101.CAL*XBRL	Taxonomy Extension Calculation Linkbase
101.DEF* XBRL	Taxonomy Extension Definition Linkbase
101.LAB*XBRL	Taxonomy Extension Label Linkbase
101.PRE* XBRL	Taxonomy Extension Presentation Linkbase

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SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned thereto duly authorized.

Date: November 13, 2015

WORLDS INC.

By: /s/ Thomas Kidrin
Thomas Kidrin
President and CEO

By: /s/ Christopher Ryan
Christopher Ryan
Chief Financial Officer

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INDEX TO EXHIBITS

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