

5BARz International, Inc.  
Form 10-Q  
March 14, 2016

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 333-1258321**

**5BARz International Inc.**

(Name of small business issuer in its charter)

Nevada  
(State or other jurisdiction of incorporation or organization)

26-4343002

(IRS Employer Identification No.)

**9444 Waples Street, Suite 140**

92121

**San Diego, California**

(Address of principal executive offices)

(Zip Code)

**877-723-7255**

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class registered: Name of each exchange on which registered:

None

None

Securities registered under Section 12(g) of the Exchange Act:

**Common Stock, par value \$0.001**

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of 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, a non-accelerated filer or a smaller reporting company filer. See definition of "accelerated filer" and "large accelerated filer" 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 ☒

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date:

Number of shares of the registrant's common stock, par value \$0.001 outstanding as of March 6, 2016 was 320,066,253.

---

**5BARz INTERNATIONAL INC.**

**FORM 10-Q**

**For the three and nine months ended September 30, 2015**

**TABLE OF CONTENTS**

<b>PART 1 FINANCIAL INFORMATION</b>	<b>3</b>
Item 1 Financial Statements (Unaudited)	
a) Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014	<b>F-1</b>
b) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014	<b>F-2</b>
c) Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2015 and 2014	<b>F-3</b>
d) Notes to Condensed Consolidated Financial Statements	<b>F-4</b>
Item 2 Management Discussion and Analysis of Financial Condition and Results of Operations	<b>4</b>
Item 3 Quantitative and Qualitative Disclosures About Market Risk	<b>27</b>
Item 4 Controls and Procedures	<b>27</b>
<b>PART II OTHER INFORMATION</b>	<b>29</b>
Item 1 Legal Proceedings	<b>30</b>

Item 1A Risk Factors	30
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3 Defaults upon senior securities	36
Item 4 Mine Safety Disclosures	36
Item 5 Other Information	36
Item 6 Exhibits	37

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements. Forward-looking statements include those that address activities, developments or events that we expect or anticipate will or may occur in the future. All statements other than statements of historical facts contained in this Quarterly report, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the captions "*Risk Factors*" beginning on page 31, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" beginning on page 4, and elsewhere in this Quarterly report. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission (the "SEC"), particularly our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

As used in this Quarterly report, the terms "we," "us," "our," "5BARz" and the "Company" mean 5BARz International Inc. and its subsidiaries, unless otherwise indicated. All dollar amounts in this Quarterly report are expressed in U.S. dollars, unless otherwise indicated.

The disclosures set forth in this report should be read in conjunction with the audited financial statements and notes thereto of the Company for the year ended December 31, 2014. Because of the nature of a relatively new and growing company, the reported results will not necessarily reflect the operating results that will be achieved in the future.







5BARz INTERNATIONAL INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 AT SEPTEMBER 30, 2015 AND DECEMBER 31, 2014  
 (Unaudited)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$122,423	\$25,103
Inventories	168,831	165,091
Prepaid expenses and deposits	123,681	73,711
Other receivables	292	—
<b>TOTAL CURRENT ASSETS</b>	<b>415,227</b>	<b>263,905</b>
<b>FIXED ASSETS:</b>		
Furniture and equipment, net	151,010	262,355
<b>OTHER ASSETS:</b>		
Intangible assets, net	2,872,799	3,236,033
Goodwill	1,140,246	1,140,246
<b>TOTAL OTHER ASSETS</b>	<b>4,013,045</b>	<b>4,376,279</b>
<b>TOTAL ASSETS</b>	<b>\$4,579,282</b>	<b>\$4,902,539</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
<b>COMMITMENTS AND CONTINGENCIES</b>	—	—
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$4,657,934	\$2,866,276
Derivative liabilities	1,110,865	547,940
Capital lease obligation ( current portion )	—	70,000
Notes payable, net of debt discount	2,158,116	280,486
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,926,915</b>	<b>3,764,702</b>
Capital lease obligation (non- current portion )	—	50,906
<b>TOTAL LIABILITIES</b>	<b>7,926,915</b>	<b>3,815,608</b>
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Common stock, \$.001 par value, 400,000,000 shares authorized; 258,812,328 and 213,384,526 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	258,812	213,383
Capital in excess of par value	18,808,514	15,135,856
Accumulated deficit	(22,977,274)	(14,862,230)
Accumulated other comprehensive income	19,859	31,633
Non-controlling interest	542,456	568,289
<b>TOTAL STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>(3,347,633 )</b>	<b>1,086,931</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$4,579,282</b>	<b>\$4,902,539</b>

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

**F-1**

---

5BARz INTERNATIONAL INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014  
(Unaudited)

	3 Months Ended		9 Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Income Statement</b>				
Sales	\$—	\$—	\$—	\$—
Cost of Sales	—	—	—	—
Operating expenses:				
Amortization and depreciation	135,747	92,602	429,743	129,432
Bank charges and interest	8,503	5,285	20,243	9,066
Sales and marketing expenses	213,308	336,332	897,722	691,188
Research & development	970,424	1,115,386	2,418,319	3,192,105
General and administrative expenses	918,044	748,043	2,268,246	3,042,945
Total operating expenses	2,246,026	2,297,648	6,034,273	7,064,736
Loss from operations	(2,246,026 )	(2,297,648 )	(6,034,273 )	(7,064,736 )
Other income (expense):				
Interest expense – notes payable	(580,494 )	(22,005 )	(832,739 )	(36,450 )
Interest income	—	—	—	58
Change in fair value of derivative liability	424,091	(831 )	(213,357 )	13,556
Amortization of debt discount	(419,343 )	(78,823 )	(905,811 )	(78,823 )
Liquidation expenses 5Barz AG	—	—	(155,251 )	—
Total other expense	(575,746 )	(101,659 )	(2,107,158 )	(101,659 )
Net loss before non-controlling interest	(2,821,772 )	(2,399,307 )	(8,141,431 )	(7,166,395 )
Non-controlling interest share of net loss	8,546	25,115	26,384	39,347
Net loss after non-controlling interest	\$(2,813,226 )	\$(2,374,192 )	\$(8,115,047 )	\$(7,127,048 )
Basic (loss) per common share	(0.01 )	(0.01 )	(0.04 )	(0.04 )
Weighted average number of shares outstanding	240,991,021	186,700,918	222,989,514	173,911,252
Other comprehensive income				
Foreign currency translation (loss) gain	(11,212 )	(5,247 )	(11,775 )	176
Other comprehensive (loss) income	(11,212 )	(5,247 )	(11,775 )	176
Comprehensive loss	\$(2,824,438 )	\$(2,379,439 )	\$(8,126,822 )	\$(7,126,871 )

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



5BARz INTERNATIONAL INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 and 2014  
(Unaudited)

	Nine Months Ended	
	September	September
	30, 2015	30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(8,141,431)	\$(7,166,395)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	429,743	129,432
Stock based compensation	323,508	1,165,142
Change in fair value of derivative liability	213,357	(13,556 )
Common shares issued for services	612,322	483,971
Interest expense – debt discount	905,811	78,823
Liquidation of 5BARz AG	155,251	—
Changes in operating assets and liabilities:		
Change in inventories	(3,740 )	(6,704 )
Change in note receivable	(292 )	65,000
Change in accounts payable and accrued expenses	1,707,717	955,403
Change in prepaid expenses and deposits	(49,970 )	(76,783 )
Change in unpaid interest and penalties on notes payable	820,226	29,036
Net cash from used in operating activities	(3,027,498)	(4,356,631)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of intangible assets	(4,908 )	(24,577 )
Purchase of furniture and equipment assets	(18,946 )	(76,102 )
Net cash used in investing activities	(23,854 )	(100,679 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of convertible notes	2,169,750	150,000
Proceeds used to settle notes payable	(454,968 )	(105,939 )
Proceeds from issuance of common stock	1,464,469	4,029,545
Proceeds from issuance of common stock by subsidiary - 5BARz AG	—	33,549
Cancellation of capital leases	(18,804 )	(35,726 )
Net cash provided by financing activities	3,160,447	4,071,429
Effect of foreign currency exchange	(11,775 )	176
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>97,320</b>	<b>(385,705 )</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>25,103</b>	<b>450,215</b>
<b>CASH, END OF PERIOD</b>	<b>\$122,423</b>	<b>\$64,510</b>

Supplementary disclosure of Cash Flow Information

Edgar Filing: 5BARz International, Inc. - Form 10-Q

Cash paid for interest	\$8,704	\$10,256
------------------------	---------	----------

NON-CASH INVESTING AND FINANCING ACTIVITIES

Conversion of notes payable	\$290,205	\$70,300
Settlement of accounts payable with common stock	\$119,000	\$105,000
Issuance of warrants in connection with debt	\$600,000	\$—
Reclassification of derivative liability to equity	\$714,782	\$—
Reclassification of debt discount for repayment of note	\$173,397	\$—
Cancellation of capital lease	\$83,940	\$—

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

**F-3**

---

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 1 – Organization and Going Concern**

The Company was incorporated under the laws of the State of Nevada on November 14, 2008. The Company was a designated shell corporation from inception to the date of acquisition of the 5BARz assets.

In 2010 the Company changed its name to 5BARz International, Inc. and the Company acquired a set of agreements for certain intellectual property underlying the 5BARz® products, and marketing rights. The 5BARz® products are highly engineered wireless units referred to as “cellular network infrastructure devices”. The 5BARz® device captures cell signal and provides a smart amplification and resend of that cell signal giving the user improved cellular reception in their home, office or while mobile. On March 29, 2012, 5BARz International, Inc. acquired a 60% controlling interest in CelLynx Group, Inc. and a 60% interest in the intellectual property underlying the 5BARz® products. From that acquisition date, 5BARz International Inc. continued the development and improvement of the 5BARz technology.

On January 12, 2015, the Company incorporated a 99% owned subsidiary in Mexico called 5BARz International SA de CV. The Company holds an inventory of 5BARz Road Warriors in Mexico, but has not commenced planned principle operations.

On January 12, 2015, the Company incorporated a 99.9% owned subsidiary in Bangalore, India, called 5BARz India Private Limited. The Company has delivered prototype units into India which are in testing with Tier 1 cellular network operators in the region.

These financial statements reflect the financial position for the Company and its subsidiary companies CelLynx Group Inc. and its wholly owned subsidiary CelLynx Inc., 5BARz International SA de CV, and 5BARz India Private Limited as at September 30, 2015. Results of operations for subsidiary Companies are reflected only from the date of acquisition of that subsidiary for the period indicated in the respective statements.

**Going concern**

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has recognized no revenue to date. The Company incurred losses of \$8,141,431 and \$7,166,395 during the nine months ended September 30, 2015 and 2014 respectively. Cash used in operating activities was \$3,027,498 and \$4,356,631 for the nine months ended September 30, 2015 and 2014 respectively. The Company is seeking additional sources of equity or debt financing, and there is no assurance these activities will be successful. These factors raise substantial doubt about the Company's ability to continue as a going concern and the Company's continued existence is dependent upon adequate additional financing being raised to develop its sales and marketing program for the sales of 5BARz product, to expand the Company's product base and commence its planned operations.





**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 1 – Organization and Going Concern (continued)**

Management's assessment of the significant mitigating factors include several quantitative and qualitative conditions which support the Company's ability to continue as a going concern as follows;

*Continued ability to generate proceeds from private placements and debt financing*— since inception of the 5BARz business in 2008, the Company has financed operations through private placements and debt, with increased volumes in the recent years. The Company's gross proceeds from financing activities for the nine months ended September 30, 2015 was \$3,634,219 which brings the aggregate cash from financing activities to date to \$14,562,180. The Company has established a sustainable ability to raise capital to continue operations at variable rates.

*Beta Product Testing* – In December 2014, the Company made its first delivery of Beta product into India for optimization of the product and subsequent Beta testing by Cellular Network Operators in the region. That testing has been successfully completed with a cellular network operator and is ongoing with others. As a result the Company is in the process of completing commercial arrangements for the commencement of orders and deployment of product in the region. In addition, the development of new product is underway with expanded functionality and application. The Company is setting groundwork for the expansion of its commercial deployment to alternative regions globally

*Ability to Engage High Quality Management, Technical and Advisory Personnel* - Over the past several years the Company has established an advisory board and management team which have a proven track records in substantive global technology businesses, which both supports the quality of the innovative products being developed as well as the Company's ability to integrate those products into the global marketplace.

The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.



**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 2 – Summary of significant accounting policies**

**Basis of presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed on April 15, 2015 for the fiscal year ended December 31, 2014.

The accompanying consolidated financial statements include the accounts of 5BARz International Inc., and its subsidiary companies CellLynx Group Inc. (60%) and its wholly owned subsidiary CellLynx Inc. (100%), 5BARz International SA de CV (99%), and 5BARz India Private Limited (99.9%). Results of operations for subsidiary Companies are reflected only from the date of acquisition of that subsidiary, for the period indicated in the respective statements. All intercompany accounts and transactions have been eliminated in consolidation.

As the Company's has not yet commenced any revenue-generating operations, does not have any cash flows from operations, and is dependent on debt and equity funding to finance its operations, the Company is considered a development stage company. The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding to commercialize the Company's current technology before another company develops similar technology.

In June 2014, the Financial Accounting Standards Board issued new guidance that removed all incremental financial reporting requirements from generally accepted accounting principles in the United States for development stage entities. The Company early adopted this new guidance effective June 30, 2014, as a result of which all inception-to-date financial information and disclosures have been removed from this report.

### **Use of estimates**

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates include impairment analysis for long lived assets, income taxes, litigation and valuation of derivative instruments. Actual results could differ from those estimates.

### **Research and Development Costs**

Research and Development costs are charged to expense as incurred. The costs of materials and equipment that are acquired or constructed for research and development activities, and have alternative future uses (either in research and development, marketing or production), are classified as property and equipment and depreciated over their estimated useful lives.

### **Furniture & equipment**

Furniture & equipment is recorded at historical cost and is depreciated using the straight-line method over their estimated useful lives. The useful life and depreciation method are reviewed periodically to ensure that the depreciation method and period are consistent with the anticipated pattern of future economic benefits. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations. The furniture and equipment is being depreciated over their estimated useful life of three to seven years.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 2 – Summary of significant accounting policies - continued**

**Inventory**

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the weighted-average method. As of September 30, 2015 the Company's inventory included 988 units of Road Warrior cellular network extenders.

**Goodwill and other intangible assets**

The Company accounts for goodwill and intangible assets in accordance with the accounting guidance which requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. The Accounting Standards Codification ("Codification") requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, the Company may assess qualitative factors for some or all of its reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this

qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. In 2014, the Company performed a qualitative assessment to identify and evaluate events and circumstances to conclude whether it is more likely than not that the fair value of the Company's reporting unit is less than its carrying amount. Based on the Company's qualitative assessments, the Company concluded that a positive assertion can be made from the qualitative assessment that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount. In accordance with the Codification, the Company reviews the carrying value of its intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value.

#### **Long-Lived Assets Subject to Amortization**

The Company amortizes intangible assets with finite lives over their estimated useful lives and reviews them for impairment annually or whenever impairment exists. The Company continually evaluates whether events or changes in circumstances might indicate that the remaining estimated useful life of long-lived assets may warrant revision, or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows in measuring whether the long-lived asset should be written down to fair value. Measurement of the amount of impairment would be based on generally accepted valuation methodologies, as deemed appropriate. The intangible assets are being amortized over their estimated useful life of seven to ten years.

There were no long-lived assets impairment charges recorded during the three and nine months ended September 30, 2015 and 2014.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 2 – Summary of significant accounting policies - continued**

**Revenue recognition**

The Company's revenue recognition policies are in compliance with ASC Topic 605, "Revenue Recognition." Revenue is recognized at the date of shipment to customers, and when the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured.

**Foreign currency translation**

Transactions in foreign currencies have been translated into US dollars using the temporal method. The functional currency of the Company's subsidiary 5BARz International SA de CV, in Mexico is the local currency, the Mexican Peso, and the functional currency in the Company's subsidiary 5BARz India Private Limited is the functional currency in India, the Indian Rupee. Under this method, monetary assets and liabilities are translated at the period-end exchange rates. Non-monetary assets have been translated at the historical rate of exchange prevailing at the date of the transaction. Expenses have been translated at the exchange rate at the time of the transaction. Realized and unrealized foreign exchange gains and losses are included in operations.

**Fair value of financial instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities, approximate fair value due to the short-term nature of these instruments.



Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3. Significant unobservable inputs that cannot be corroborated by market data.

The assets or liability's fair value measurement within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The following table provides a summary of the assets that are measured at fair value on a recurring basis.

	Consolidated Balance Sheet	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Quoted Prices for Similar Assets or Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities:				
September 30, 2015	\$ 1,110,865	\$ —	\$ —	\$ 1,110,865
December 31, 2014	\$ 547,940	\$ —	\$ —	\$ 547,940

**5BARz International, Inc.****Notes To Condensed Consolidated Financial Statements****(Unaudited)****Note 2 – Summary of significant accounting policies - continued****Fair value of financial instruments - continued**

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	September 30, 2015	December 31, 2014
Beginning balance	\$547,940	\$60,018
Aggregate fair value of conversion feature upon issuance	1,064,350	263,490
Change in fair value of derivative liabilities	213,357	224,432
Reclassification of derivative liability	(714,782 )	—
Ending balance	\$1,110,865	\$547,940

The derivative conversion feature liabilities are measured at fair value using the Black-Scholes pricing model and are classified within Level 3 of the valuation hierarchy. The significant assumptions and valuation methods that the Company used to determine fair value and the change in fair value of the Company's derivative financial instruments are provided below:

	September 30, 2015	December 31, 2014
Stock price	\$0.10	\$0.11
Volatility	96 %	83 %
Risk-free interest rate	0.08- 0.92 %	0.46 %
Dividend yield	0.0 %	0 %
Expected life	0.01 – 2.71 years	1.6 years

Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category

presented in the tables above may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in historical company data) inputs.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

As of September 30, 2015 there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

### **Derivative instruments**

**Derivative Financial Instruments** The fair value of an embedded conversion option that is convertible into a variable amount of shares and warrants that include price protection reset provision features are deemed to be “down-round protection” and, therefore, do not meet the scope exception for treatment as a derivative under ASC 815 “Derivatives and Hedging”, since “down-round protection” is not an input into the calculation of the fair value of the conversion option and warrants and cannot be considered “indexed to the Company’s own stock” which is a requirement for the scope exception as outlined under ASC 815. The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 2 – Summary of significant accounting policies (continued)**

**Derivative instruments (continued)**

If the Company were to enter into a financial arrangement through the issuance of convertible debt and or warrants, for which such instruments would contain a variable conversion feature with an indeterminable number of shares, the Company would apply a sequencing policy in accordance with ASC 815- 40-35-12 whereby such instruments, and all future issuances of financial instruments regardless of conversion terms, would be classified as a derivative liability with the exception of instruments related to share-based compensation issued to employees or directors. The Company may also apply sequencing in any circumstance, whereby the Company has entered into financial arrangements for commitments to issue shares, for which such issuances would exceed the authorized share limit. Upon the issuance of any such instrument, the excess shares committed to be issued, would also be reclassified as a derivative liability.

The Black-Scholes option valuation model was used to estimate the fair value of the warrants and conversion options. The model includes subjective input assumptions that can materially affect the fair value estimates. The Company determined the fair value of the Binomial Lattice Model and the Black-Scholes Valuation Model to be materially the same. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants or conversion options. Conversion options are recorded as debt discount and are amortized as interest expense over the life of the underlying debt instrument.

**Stock Based Compensation**

The Company records stock-based compensation in accordance with ASC Topic 718, “Compensation – Stock Compensation.” ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee’s requisite service period. Under ASC 718, the Company’s volatility is based on the historical volatility of the Company’s stock or the expected volatility of similar companies. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company uses the Black-Scholes option-pricing model which was developed for use in estimating the fair value of options. Option-pricing models require the input of highly complex and subjective variables including the expected life of options granted and the Company's expected stock price volatility over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of the Company's employee stock options, it is management's opinion that the Black-Scholes option-pricing model may not provide an accurate measure of the fair value of the Company's employee stock options.

Although the fair value of employee stock options is determined in accordance with ASC 718 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/seller market transaction.

The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees.

The Company incurred stock based compensation charges during the three and nine month period ended September 30, 2015 and 2014 as follows;

	3 months ended September 30		9 months ended September 30	
	2015	2014	2015	2014
General and administrative	\$49,435	\$84,366	\$132,843	\$624,875
Research and development	57,198	83,332	97,028	369,431
Sales and marketing	37,455	85,885	93,637	170,836
Total	\$144,088	\$253,583	\$323,508	\$1,165,142

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 2 – Summary of significant accounting policies (continued)**

**Net loss per share**

The Company reports loss per share in accordance with the ASC Topic 260, “Earnings Per Share.”, which requires presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. In the accompanying financial statements, basic earnings per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants and conversion of notes payable. These potentially dilutive securities outstanding at September 30, 2015 and December 31, 2014 respectively of 191,262,448 and 102,517,763 were not included in the calculation of loss per common share, because their effect would be anti-dilutive. The weighted average number of shares outstanding does not include reciprocal shareholdings, held by the Company’s subsidiary, CelLynx Group, Inc. which is reflected as a reduction in capital in excess of par value on the Company’s balance sheet.

The Company will not have sufficient Common shares available to issue should all of the above conversions and exercises occur. Accordingly, the Company may have to settle these contracts in cash if they are not successful in increasing the authorized number of shares.

The Company applies sequencing with respect to such commitments and other circumstances as disclosed in its accounting policies for derivatives.

**Recent Accounting Pronouncements**

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period," ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, "Compensation - Stock Compensation" as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015.

Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 on "Presentation of Financial Statements Going Concern (Subtopic 205-40) - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". Currently, there is no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments in this ASU provide that guidance. In doing so, the amendments are intended to reduce diversity in the timing and content of footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for public and nonpublic entities for annual periods ending after December 15, 2016. Early adoption is permitted. The Company has adopted this ASU effective as of December 31, 2014 and its adoption resulted in the additional disclosures in Note 1, reflecting management's assessment of the mitigating effect of management's plans on the Company's ability to continue as a going concern.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

In April, 2015, the FASB issued ASU 2015-03 on “Simplifying the Presentation of Debt issuance costs” The ASU changes the presentation of debt issue costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability. Amortization of the cost is reported as an interest expense. The amendments in this ASU are effective for public business entities for annual periods ending after December 15, 2015. Early adoption is permitted. The Company will adopt this ASU effective December 31, 2015 upon issuance of its annual audited financial statements. At that time the Company would apply the new guidance retrospectively to all prior periods.

In July 2015, the FASB issued ASU No. 2015-11, “*Inventory: Simplifying the Measurement of Inventory*”, that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The Company will adopt this ASU effective December 31, 2015 upon issuance of its annual audited financial statements. At that time the Company would apply the new guidance retrospectively to all prior periods.

The FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The new standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities. The Company has not yet determined the effect of the adoption of this standard on the Company’s consolidated financial position and results of operations.

In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) by one year. ASU 2015-14 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. As a result, the ASU is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, which for us is the first quarter of 2018. Earlier application is permitted for fiscal years beginning after December 15, 2016, including



interim reporting periods within those years, which for us is the first quarter of 2017. We do not expect this ASU to have a material impact on our financial position, results of operations or disclosures.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of September 30, 2015 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2015 or 2014, and it does not believe that any of those pronouncements will have a significant impact on our consolidated financial statements at the time they become effective.

### Note 3 – Furniture & equipment

Furniture & Equipment consisted of the following at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Office furniture and equipment	\$146,284	\$137,148
Research and development equipment	13,367	169,350
Leasehold improvements	56,128	46,318
	215,779	352,816
Accumulated amortization & depreciation	(64,769 )	(90,461 )
Furniture & equipment net	\$151,010	\$262,355

During the three and nine months ended September 30, 2015 the Company incurred amortization and depreciation expense of \$13,882, (2014 - \$20,494) and \$60,945, (2014 - \$57,324) respectively.

**5BARz International, Inc.****Notes To Condensed Consolidated Financial Statements****(Unaudited)****Note 4 – Long lived assets subject to amortization**

Intangible assets are comprised of technology, trademarks and license rights which are recorded at cost.

	September 30, 2015	December 31, 2014
Technology	\$3,073,140	\$3,067,827
Marketing and distribution agreement	370,000	370,000
Trademarks	264	264
License rights	1,348	1,348
	3,444,752	3,439,439
Accumulated amortization	(572,204 )	(203,406 )
Technology and other intangibles, net	\$2,872,548	\$3,236,033

On August 2, 2014, the company commenced amortization of technology and other intangibles upon delivery of commercial beta devices for testing to a collaboration partner. During the three and nine months ended September 30, 2015, \$122,865, (2014 - \$72,108) and \$368,798 (2014 - \$72,108) was recorded as amortization on technology and other intangibles. The Company's estimated technology amortization over the next five years is expected to be \$1,822,509.

**Note 5 - Goodwill**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2015 and 12 months ended December 31, 2014 is as follows:

	September 30, 2015	December 31, 2014
Goodwill – beginning of quarter	\$1,140,246	\$1,140,246
Goodwill – end of quarter	\$1,140,246	\$1,140,246

**Note 6 – Sales of common stock**

During the nine months ended September 30, 2015, the Company has issued common stock as follows:

During the period January 1, 2015 to September 30, 2015 the Company issued 29,286,500 units at a price of \$0.05 per unit for aggregate proceeds of \$1,464,469. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of \$0.30 per share acquired, with a two year term on the attached warrant.

On January 13, 2015 the Company issued 331,986 shares at a price of \$0.069 per share for the settlement of convertible notes payable with a total value of \$23,000. The balance of principal and interest due under this convertible note, after this conversion was \$74,829.

On February 2, 2015 the Company issued 75,000 shares at a price of \$0.10 per share for services valued at \$7,500.

On February 2, 2015 the Company issued 180,000 shares at a price of \$0.05 per share in settlement of accrued payables of \$9,000.

On February 9, 2015 the Company issued 400,000 shares at a price of \$0.05 per share in settlement of services valued at \$20,000.

On February 20, 2015 the Company issued 180,000 shares for services at a price of \$0.05 per share for a total value of \$9,000.

On March 20, 2015 the Company issued 400,000 shares at a price of \$0.048 per share upon conversion of \$19,200 of principle and interest due under the terms of a convertible promissory note. The balance of principle and interest due under that note after the conversion was \$167,467.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 6 – Sales of common stock (continued)**

On March 31, 2015 the Company issued 146,667 shares and warrants to acquire a further 146,667 shares at a price of \$0.30, for a period of two years, pursuant to the terms of a share purchase amending agreement. The agreement relates to units issued pursuant to a private placement at \$0.15 per unit on November 14, 2014. Aggregate proceeds paid to the Company were \$11,000 and the adjustment changes the issue price to \$0.05 per unit.

On April 15, 2015 the Company issued 300,000 units at a price of \$0.05 per unit for services with a total value of \$15,000. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a strike price of \$0.30 for a term of two years.

On April 27, 2015 the Company issued 450,000 shares at a price of \$0.04 per share upon conversion of \$19,035 of convertible notes. The balance due under the note after conversion was \$148,432. The note was subsequently paid in full.

On April 29, 2015 the Company issued 240,000 units at a price of \$0.05 per unit for services with a total value of \$12,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On May 1, 2015 the Company issued 110,000 shares at a price of \$0.10 per share in settlement of accrued payables of \$11,000.

On May 29, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On June 2, 2015 the Company issued 400,000 units at a price of \$0.05 per unit for services with a total value of \$20,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On June 10, 2015 the Company issued 250,000 shares at a price of \$0.10 per share in settlement of services valued at \$25,000.

On June 24, 2015 the Company issued 1,000,000 shares at a price of \$0.10 per share in settlement of services valued at \$100,000.

On June 30, 2015 the Company issued 312,500 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$25,000. The balance of principal and interest due under this convertible note, after this conversion was \$51,322.

On June 30, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On June 30, 2015 the Company issued 144,250 shares at a price of \$0.10 per share in settlement of services valued at \$14,425.

On June 30, 2015 the Company issued 2,000,000 units at a price of \$0.05 per unit for services with a total value of \$100,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On July 1, 2015 the Company issued 60,000 units at a price of \$0.05 per unit for services with a total value of \$3,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 6 – Sales of common stock (continued)**

On July 10, 2015 the Company issued 1,500,000 shares at a price of \$0.05 per share in settlement of services valued at \$75,000.

On July 31, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On August 7, 2015 the Company issued 24,000 shares at a price of \$0.05 for conversion of interest in the amount of \$1,200, representing the final interest charges on the convertible note.

On August 13, 2015 the Company issued 29,340 shares at a price of \$0.05 for conversion of interest in the amount of \$1,467, representing the final interest charges on the convertible note.

On August 20, 2015 the Company issued 180,000 shares for services at a price of \$0.16 per share for a total value of \$28,800.

On August 24, 2015 the Company issued 1,000,000 shares at a price of \$0.10 per share in settlement of services valued at \$100,000.

On August 26, 2015 the Company issued 4,343,589 shares at a price of \$0.046 per share in settlement of a convertible note.

On August 31, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On September 18, 2015 the Company issued 73,970 shares at a price of \$0.15 per share in settlement of services valued at \$11,096.

On September 22, 2015 the Company issued 1,000,000 shares at a price of \$0.12 per share in settlement of services valued at \$120,000.

On September 28, 2015 the Company issued 210,000 units at a price of \$0.05 per unit for services with a total value of \$10,500. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On September 30, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

F-15

---



**5BARz International, Inc.****Notes To Condensed Consolidated Financial Statements****(unaudited)****Note 7 – Notes Payable****Promissory Notes**

5BARz International, Inc.	Unpaid Note Principal	Note Terms	Unpaid Interest	Balance September 30, 2015	Balance December 31, 2014
Issue Date					
December 17, 2012	80,000	(a)	17,832	97,832	93,045
January 8, 2013	68,356	(b)	—	68,356	96,313
August 21, 2014	—	(c)	—	—	184,667
October 6, 2014	250,000	(d)	2,493	252,493	250,623
March 3, 2015	—	(e)	—	—	—
March 6, 2015	400,000	(f)	109,836	509,836	—
May 4, 2015	100,000	(g)	23,200	123,200	—
May 21, 2015	100,000	(h)	14,817	114,817	—
May 26, 2015	—	(i)	—	—	—
June 2, 2015	—	(j)	—	—	—
June 15, 2015	102,500	(k)	22,500	125,000	—
June 17, 2015	50,000	(l)	4,494	54,494	—
June 18, 2015	100,000	(m)	8,000	108,000	—
June 18, 2015	50,000	(n)	4,326	54,326	—
June 26, 2015	104,500	(o)	8,976	113,476	—
July 9, 2015	450,000	(p)	428,571	878,571	—
July 17, 2015	62,750	(q)	4,880	67,630	—
July 30, 2015	100,000	(r)	11,868	111,868	—
August 27, 2016	59,000	(s)	658	59,658	—
August 27, 2016	100,000	(t)	11,022	111,022	—
Notes payable – 5BARz International Inc.	\$2,177,106		\$673,473	\$2,850,579	\$624,648

CellLynx Group Inc.	Unpaid Note Principal	Note Terms	Unpaid Interest	Balance September 30, 2015	Balance December 31, 2014
Issue Date					
May 24, 2012	15,900	(u)	27,701	43,601	37,148

Edgar Filing: 5BARz International, Inc. - Form 10-Q

September 12, 2012	12,500	(v)	18,812	31,312	26,676
CelLynx Group, Inc.	\$28,400		\$46,513	\$74,913	\$63,824
Sub-Total	\$2,205,506		\$719,986	\$2,925,483	\$688,472
Debt Discount	—		—	(767,376)	(407,986)
Total, net of debt discount	\$2,205,506		\$719,986	\$2,158,116	\$280,486

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 7 – Notes Payable (continued)**

In December 2012, a shareholder purchased 1,600,000 common shares for \$80,000. On January 17, 2013, the security was amended to a convertible debenture with an 8% per annum yield and may be converted into common stock, at the option of the holder, 90 days after the inception of the agreement, at a price which is a 20% discount to a)market, but not less than \$0.05 per share. During the period from issuance of the convertible debenture issuance to September 30, 2015, interest of \$17,832 was accrued on the convertible debenture, resulting in a total principal and interest due at September 30, 2015 of \$97,832. A derivative liability of \$24,817 is recorded on this note payable at September 30, 2015.

b) On January 8, 2013 the Company entered into a convertible debenture agreement with a consultant in settlement of \$147,428 payable to that consultant for services rendered. The convertible debenture yields interest at 8% per annum and may be converted into common stock, at the option of the holder, 90 days after the inception of the agreement, at a price which is a 20% discount to market, but not less than \$0.05 per share. During period from January 8, 2013 to September 30, 2015, interest of \$24,628 was accrued on the convertible debenture and \$119,700 was settled by way of conversion into common stock. On September 30, 2015 the agreement was amended, and \$16,000 in past due consulting fees were added to the principal of the note for a total amount of \$68,356. In addition the Company reflected a derivative liability at September 30, 2015 of \$12,906 in connection with this note.

c) On August 21, 2014 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$500,000 of which \$150,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 10% of the loan amount, or \$16,667. The interest rate on the note is 0% for the first 90 days. The loan may be repaid at any time during the first three months of the note term. Thereafter, if the note is not repaid, a one-time interest charge of 12% is assessed. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.00005. On March 20, 2015 the holder converted \$19,200 of principle and interest on the note for 400,000 shares. On April 24, 2015 the Company entered into an agreement for the settlement of the note for proceeds of \$252,334. On April 27, 2015 the holder converted a further \$19,035 for 450,000 shares. On May 6, 2015 the Company paid \$240,000 to settle the note and the balance of \$12,334 was paid on May 21, 2015. The note has a zero balance at September 30, 2015.

d) On October 6, 2014 the Company entered into a Note and Warrant purchase agreement with three parties who have agreed to provide to the Company additional resources to run operations. The parties have agreed to loan up to \$1,500,000 pursuant to the terms of a convertible promissory note and warrant agreement. On the closing date, October 6, 2014 the Company received \$250,000 cash. The purchasers have agreed that at any time on or before the earlier of (i) the Purchasers' election, or (ii) the execution of an engagement letter by and between the Company and an Investment Banking Firm acceptable to the purchaser relating to the provision of financial advisory services by the Investment Banking Firm to the Company, that the Company will sell Notes representing the balance of the authorized principal amount not sold at the Closing to the Purchasers. The convertible note accrues interest at a rate of 1% per annum and provides for the conversion of the principal and accrued interest on the note into common stock at any time, at the election of the holder at a price of \$0.15 per share. Further, the number of warrants to be issued will be equal to the proceeds loaned pursuant to the note and warrant purchase agreement divided by \$0.15. The warrant has a term of five (5) years and provides a strike price of \$0.20 per share. The fair value of warrants at the date of issue was \$282,767 using the Black-Scholes pricing model. The convertible promissory note and accrued interest is calculated to be \$252,493 at September 30, 2015, net of an unamortized debt discount of \$139,552, resulting in a carrying value of \$112,941. The unamortized debt discount will be charged to interest expense over the remaining term of the Note which matures December 31, 2016.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 7 – Notes Payable (continued)**

e) On March 3, 2015 the Company entered into a convertible note arrangement with an investment company, in the principle amount of \$350,000 of which \$175,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 10% of the loan amount, or \$17,500. The loan may be repaid at any time during the first six months of the note term, at a prepayment premium on day 90 of 115%, increasing by 5% each month to month 6. On June 1, 2015, a one-time interest charge of 10% was assessed, or \$19,250. After 6 months, the note is convertible into common stock of the issuer at a discount to market of 35%, with the market defined as the lowest trade price for a period of 25 days prior to the issuance, with a conversion floor price at no lower than \$0.001. On August 26, 2015 the balance due under the note of \$211,750 was fully converted into common stock by the issuance of 4,343,589 common shares at a price of \$0.046. The balance due on the note agreement at September 30, 2015 is nil.

f) On March 6, 2015 the Company entered into a Note and Warrant adjustment purchase agreement with two parties who have agreed to provide to the Company additional resources to run operations. The parties have agreed to loan \$400,000 pursuant to the terms of a convertible promissory note and warrant adjustment agreement. On the closing date, March 6, 2015 the Company received \$400,000 cash. The note matures on September 6, 2015. The loan maturity may be extended for an additional 6 months by payment on the original maturity date of unpaid interest, plus a 10% extension fee. The convertible note accrues interest at a rate of 15% semi annually and provides for the conversion of the principle and accrued interest on the note into common stock at any time, at the election of the holder at a price of \$0.05 per share. Further, warrants to acquire up to 12,441,667 shares which had been issued in conjunction with previous financings at strike prices ranging from \$0.20 to \$0.30 per share are to be re-priced to a strike price of \$0.05 per share with the maturity dates changed to March 6, 2016. The Company has the right to repay the loan by payment of the principle and accrued interest at the date of repayment. On September 6, 2015 the maturity of the loan was extended for 6 months, with the unpaid interest of \$60,000 and \$40,000 extension fee being added to the note payable. At September 30, 2015 unpaid principle and interest on the note aggregate \$509,836.

g) On May 6, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$250,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 10% of the loan amount, or \$10,000. The interest rate on the note is 12%, with 6% being charged on the Issuance Date to the Original Principal Amount in the amount of \$6,600 and the remaining 6% being charged to the Original Principal Amount on the 61th calendar day after the issuance date provided the note has not been paid in full. The loan may be repaid at any time during the first 120 days of the note term. The note is convertible into common stock of the issuer at the lesser of \$0.09 or a discount to market of 50%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.001. In connection with the convertible debt, the Company recorded

\$ 95,598 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$123,200, net of an unamortized debt discount of \$53,653, resulting in a carrying value of \$69,547 at September 30, 2015. The unamortized debt discount was charged to income over the remaining term of the note which matured on February 6, 2016. On November 3, 2015 an amending agreement was entered into providing for the prepayment of the note at any time up to 9 months from the loan origination date at a rate of 145% of the then unpaid principle and interest due under the note.

h) On May 21, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$200,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an "original issue discount" in an amount up to 10% of the loan amount, or \$10,000. The interest rate on the note is 12%. The prepayment penalty of the note is as follows, 5% from day 1 to 90 days, 15% from day 91 to 150 days, 18% from day 151 to 179 days and 25% there- after on buyout of loan. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. In connection with the convertible debt, the Company recorded \$ 111,662 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$114,817, net of an unamortized debt discount of \$70,219, resulting in a carrying value of \$44,598 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on May 21, 2016.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 7 – Notes Payable (continued)**

i) On May 26, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$100,000. The interest rate on the note is 12%. The note is convertible into common stock of the issuer at \$0.05. The principle and interest due under the note at September 30, 2015 was \$100,000, net of an unamortized debt discount of \$93,617, resulting in a carrying value of \$6,383 at September 30, 2015. The interest in the amount of \$1,167 was paid in cash on June 30, 2015. In connection with the note, a Security Agreement was signed, with a general assignment of the company assets to the note holder, and 3 million warrants were issued. On August 7, 2015, the principal amount was repaid by cash and the interest balance of \$1,200 was paid by way of conversion of the balance of the note into 24,000 common shares at a price of \$0.05 per share.

j) On June 2, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$100,000. The interest rate on the note is 12%. The note is convertible into common stock of the issuer at \$0.05. The principle and interest due under the note at September 30, 2015 was \$100,000, net of an unamortized debt discount of \$94,826, resulting in a carrying value of \$5,174 at September 30, 2015. The interest in the amount of \$933 was paid in cash on June 30, 2015. In connection with the note, a Security Agreement was signed, with a general assignment of the company assets to the note holder, and 3 million warrants were issued. On August 13, 2015 the principal amount was repaid by cash and the interest balance of \$1,467 was paid by conversion to 29,340 shares at a price of \$0.05 per share.

k) On June 15, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$125,000 of which \$102,500 was advanced to the Company at the inception of the note. The Company recorded an interest of \$22,500 at inception of the note, and issued 250,000 shares at \$0.10. The note is convertible into common stock of the issuer at 0.05 if converted within 180 days after the Issuance Date, or at a discount to market of 35%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.0001, if converted after 180 days. In connection with the convertible debt, the Company recorded \$ 178,337 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$125,000. The note matures on June 15, 2018.

l) On June 17, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$52,500 of which \$50,000 was advanced to the Company at the inception of the note. The Company recorded an interest of \$2,500 at inception of the note. The interest rate on the note is 8%. The prepayment

penalty of the note is as follows, 15% from day 1 to 60 days, 21% from day 61 to 90 days, 27% from day 91 to 120 days, 33% from day 121 to 150 days and 39% from day 151 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 15 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. In connection with the convertible debt, the Company recorded \$ 54,050 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$54,494, net of an unamortized debt discount of \$37,397, resulting in a carrying value of \$17,097 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on June 17, 2016.

m) On June 18, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$105,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 5% of the loan amount, or \$5,000. The interest rate on the note is 10%. The prepayment penalty of the note is as follows, 15% from day 1 to 60 days, 21% from day 61 to 90 days, 27% from day 91 to 120 days, 33% from day 121 to 150 days and 39% from day 151 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. In connection with the convertible debt, the Company recorded \$ 106,826 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$108,000, net of an unamortized debt discount of \$75,082, resulting in a carrying value of \$32,918 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on June 18, 2016.



**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 7 – Notes Payable (continued)**

n) On June 18, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$52,500 of which \$50,000 was advanced to the Company at the inception of the note. The Company recorded an interest of \$2,500 at inception of the note. The interest rate on the note is 8%. The prepayment penalty of the note is as follows, 15% from day 1 to 60 days, 21% from day 61 to 90 days, 27% from day 91 to 120 days, 33% from day 121 to 150 days and 39% from day 151 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 15 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. In connection with the convertible debt, the Company recorded \$ 53,704 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$54,326, net of an unamortized debt discount of \$37,541, resulting in a carrying value of \$16,785 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on June 18, 2016.

o) On June 26, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$110,000 of which \$104,500 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount of \$5,500. The interest rate on the note is 12%. Upon an Event of Default the interest rate shall increase to 18%. The prepayment penalty of the note is as follows, 35% from day 1 to 90 days, 45% from day 91 to 120 days, and 50% there- after on buyout of loan. The note is convertible into common stock of the issuer at a discount to market of 42%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. In connection with the convertible debt, the Company recorded \$ 99,788 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$113,476, net of an unamortized debt discount of \$81,068, resulting in a carrying value of \$32,408 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on December 26, 2015.

p) On July 9, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$450,000. The interest rate on the note accrues at a rate of \$50,000 within 30 days and \$50,000 weekly thereafter. The principle and accrued interest is convertible into common stock after 60 days, if not repaid, in whole or in part at a conversion price of \$0.02 per share. The principle and interest due under the note at September 30, 2015 was \$878,571. Subsequent to September 30, 2015 the Company repaid \$195,000 and is continuing to make payments under the note.

q) On July 17, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$66,250 of which \$60,000 was advanced to the Company at the inception of the note. The interest rate on the note is 10%. Upon an Event of Default the interest rate shall increase to 24%. The prepayment penalty of the note is as follows, 25% from day 1 to 30 days, 30% from day 31 to 60 days, 35% from day 61 to 90 days, 40% from day 91 to 120 days, 45% from day 121 to 150 days, 50% from day 151 to 180 days. There is no right to prepayment after 180 days. The note is convertible into common stock of the issuer at a discount to market of 45%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. In connection with the convertible debt, the Company recorded \$ 74,583 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$67,630, net of an unamortized debt discount of \$48,247, resulting in a carrying value of \$19,383 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on April 17, 2016.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 7 – Notes Payable (continued)**

r) On July 30, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$110,000 of which \$100,000 was advanced to the Company at the inception of the note. The interest rate on the note is 10%. Upon an Event of Default the interest rate shall increase to 24%. The prepayment penalty of the note is as follows, 35% from day 1 to 90 days, and 50% there- after on buyout of loan. The note is convertible into common stock of the issuer at a discount to market of 42%, with the market defined as the lowest trade price for a period of 25 days prior to the conversion, with a conversion floor price at no lower than \$0.00001. In connection with the convertible debt, the Company recorded \$ 119,672 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$111,868, net of an unamortized debt discount of \$81,315, resulting in a carrying value of \$30,553 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on July 30, 2016.

s) On August 27, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$59,000 of which \$55,000 was advanced to the Company at the inception of the note. The interest rate on the note is 12%. Upon an Event of Default the interest rate shall increase to 24%. The prepayment penalty of the note is 40%. The note is convertible into common stock of the issuer at a discount to market of 42%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.000058. In connection with the convertible debt, the Company recorded \$ 64,727 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$59,658, net of an unamortized debt discount of \$53,519, resulting in a carrying value of \$6,139 at September 30, 2015. The unamortized debt discount will be charged to income over the remaining term of the note which matures on August 27, 2016.

t) On August 27, 2015 the Company entered into a convertible note arrangement with an investment Company, in the principle amount of \$110,000 of which \$100,000 was advanced to the Company at the inception of the note. The Company agreed to pay an “original issue discount” in an amount up to 10% of the loan amount, or \$10,000. The interest rate on the note is 10%. The prepayment penalty of the note is as follows, 35% from day 1 to 90 days, 45% from day 91 to 180 days. This note may not be prepaid after the 180<sup>th</sup> day. The note is convertible into common stock of the issuer at a discount to market of 40%, with the market defined as the lowest trade price for a period of 20 days prior to the conversion, with a conversion floor price at no lower than \$0.0001. In connection with the convertible debt, the Company recorded \$ 114,195 of derivative liability as of September 30, 2015. The principle and interest due under the note at September 30, 2015 was \$111,022, net of an unamortized debt discount of \$89,781, resulting in a carrying value of \$21,241 at September 30, 2015. The unamortized debt discount will be charged to income over the

remaining term of the note which matures on August 27, 2016.

u) On May 24, 2012, CellLynx Group, Inc., completed a transaction pursuant to a Promissory Note agreement, through which the Company borrowed \$37,500. The Note bears interest at a rate of 8%, and was due on November 24, 2012, (the "Due Date"). The Company could settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principal amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by payment of 150% of the principal amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible into common stock at a variable conversion price equal to 51% of the average of the three lowest closing bid prices for CellLynx Group, Inc.'s common stock for a period of 10 days prior to the date of notice of conversion. The Company redeemed \$21,600 payable on that note, by the issuance of CellLynx Group, Inc. common shares. As of September 30, 2015 the note is past due. The value of the derivative liability associated with this note at September 30, 2015 and 2014 was immaterial. The note principle and accrued interest outstanding at September 30, 2015 was \$43,601.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 7 – Notes Payable (continued)**

On September 12, 2012, CelLynx Group, Inc. completed a transaction pursuant to a Promissory Note agreement, through which the Company borrowed \$12,500. The Note bears interest at a rate of 8%, and is due on March 12, 2013, (the “Due Date”). The Company may settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principal amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by v) payment of 150% of the principal amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible into common stock at a variable conversion price equal to 51% of the average of the three lowest closing bid prices for CelLynx Group, Inc.’s common stock for a period of 10 days prior to the date of notice of conversion. As of June 30, 2015 the note is past due. The value of the derivative liability associated with this note at June 30, 2015 and 2014 was immaterial. The note was carried at \$31,312 comprised of principle and interest due at September 30, 2015.

Several of the above notes require that the Company must be current in its filing with the Securities and Exchange Commissions. The Company is delinquent in its filing of its September 30, 2015 10-Q and therefore such notes are in technical default.

**Note 8 – Commitments and Contingencies**

**Operating Lease Obligation**

On August 22, 2014 (the commencement date) the Company amended the terms of its leased facilities in San Diego, California. Pursuant to the terms of that amending agreement the Company extended the terms of its base lease for a further 66 months and in addition leased an expansion premises at the same location, also for 66 months.

This lease, as amended represents aggregate minimum lease payments over the next five years and in aggregate as follows;

2015	\$65,391
------	----------

Edgar Filing: 5BARz International, Inc. - Form 10-Q

2016	264,314
2017	290,788
2018	300,966
2019	311,499
Aggregate over 5 years	53,380
Total	\$1,286,338

**5BARz International, Inc.****Notes To Condensed Consolidated Financial Statements****(Unaudited)****Note 9 – Options and Warrants****Options – 5BARz International Inc.**

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding at December 31, 2014	12,250,000	\$ 0.15	6.42
Granted	3,700,000	0.12	7.40
Exercised	—	—	—
Cancelled	(4,060,000)	0.17	6.19
Outstanding at September 30, 2015	11,890,000	\$ 0.13	6.03
Exercisable at September 30, 2015	9,341,324	\$ 0.13	6.03

On January 27, 2015 the Company issued 500,000 stock options at a strike price of \$0.10 per share. On April 7, 2015 the company cancelled the 2,000,000 options issued on August 1, 2014 and re-issued them at strike price of \$0.10. On April 22, 2015 the Company issued 100,000 stock options at a strike price of \$0.10 per share, on June 19, 2015 the Company issued 800,000 stock options at a strike price of \$0.10 per share on July 1, 2015 issued 300,000, during the period the Company cancelled 4,060,000 stock options, 90 days from the date of termination of the related consulting agreement. The Company reports stock-based compensation under ASC 718 “Compensation – Stock Compensation”. ASC 718 requires all share-based payments to employees, including grants of employee stock options, warrants to be recognized in the consolidated financial statements based on their fair values. The Company amortizes the fair value of employee stock options on a straight-line basis over the requisite service period of the awards. The Company accounts for equity instruments issued to non-employees as compensation in accordance with the provisions of ASC 718, which require that each such equity instrument be recorded at its fair value on the measurement date, which is typically the date the services are performed.

**Options – 5BARz International Inc.**

As of September 30, 2015, total unamortized compensation expenses related to unvested stock options were \$150,500. This amount is expected to be recognized over a weighted average period of 12 months. The Black-Scholes option valuation model is used to estimate the fair value of the warrants or options granted. The Company measured the stock options issued at fair value using the Black-Scholes pricing model and are classified within Level 3 of the valuation hierarchy. The significant assumptions and valuation methods that the Company used to determine fair value and the change in fair value of the Company’s derivative financial instruments are provided below:

Edgar Filing: 5BARz International, Inc. - Form 10-Q

	January 27, 2015	April 7, 2015	April 22, 2015	June 19, 2015	July 1, 2015
Stock price	\$0.10	\$0.10	\$0.10	\$0.10	\$0.11
Volatility	96 %	96 %	96 %	96 %	96 %
Risk-free interest rate	1.36 %	2.26 %	1.63 %	.64 %	.64 %
Dividend yield	0	0	0	0	0
Expected life	5 years	10 years	10 years	5 years	5 years

The fair value of the options was determined to be as follows based upon the assumptions provided above;

Date Issued	Number of options	Fair value
January 27, 2015	500,000	\$34,540
April 7, 2015	2,000,000	\$156,344
April 22, 2015	100,000	\$8,810
June, 2015	1,100,000	\$57,212
July 1, 2015	300,000	18,632

The option valuations are being amortized over vesting terms ranging from immediate to 3 years. For the three and nine months ended September 30, 2015, \$144,088 (2014 –\$212,918) and \$323,508 (2014 –\$1,124,478) was amortized to expense.

F-23

---



**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 9 – Options and Warrants (continued)**

**Warrants – 5BARz International Inc.**

The following table summarizes the warrant activity to September 30, 2015:

	Number of Warrants	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding at December 31, 2014	81,960,397	\$ 0.28	.98
Granted *	53,905,834	0.24	1.56
Exercised	—	—	—
Cancelled/ expired	(33,436,552 )	0.25	—
Outstanding at September 30, 2015	102,429,679	\$ 0.27	1.01
Exercisable at September 30, 2015	102,429,679	\$ 0.27	1.01

\* During the nine months ended September 30, 2015, the Company granted 43,850,834 warrants as part of a unit in connection with various equity raises, 6,000,000 in connection with the issuance of convertible notes and 4,055,000 as part of a unit for services to consultants. In addition, the Company cancelled and re-issued 12,441,667 warrants changing the strike price to \$0.05 per warrant from \$0.20 and \$0.30 and extending the term to 2 years, in conjunction with an additional \$400,000 loan from the holders.

The Company has authorized capital of 400,000,000 shares, and accordingly should all options, warrants and potentially convertible securities be exercised, the Company may not have enough authorized shares to honor its commitments.

**Options – CelLynx Group, Inc.**

The number and weighted average exercise prices of all Cellynx Group, Inc. options and warrants exercisable as of September 30, 2015, are as follows:

CellLynx Group, Inc. - Options Exercisable

	Options	Weighted average exercise price	Weighted average remaining contract life
Opening at December 31, 2014	69,000,000	\$0.0002	3.27
Granted	—	—	—
Expired	—	—	—
Outstanding at September 30, 2015	69,000,000	\$0.0002	2.52
Exercisable at September 30, 2015	69,000,000	\$0.0002	2.52

**5BARz International, Inc.****Notes To Condensed Consolidated Financial Statements****(Unaudited)****Note 9 – Options and Warrants (continued)****Warrants – CellLynx Group, Inc.**

There are no warrants outstanding at September 30, 2015 in CellLynx Group Inc. The following table summarizes the warrant activity to September 30, 2015:

	Number of Warrants	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding at December 31, 2014	4,500,000	\$ .96	.12
Granted	—	—	—
Exercised	—	—	—
Expired	(4,500,000)	.96	—
Outstanding at September 30, 2015	—	\$ —	—
Exercisable at September 30, 2015	—	\$ —	—

**Note 10 - Related party transactions**

On January 12, 2015, the Company incorporated a 99% owned subsidiary in Mexico called 5BARz International SA de CV. The Company is in the process of selling 5BARz Road Warriors in Mexico. Upon incorporation of that subsidiary, the Company issued one (1) common share representing a 1% interest in that subsidiary to the CEO and Director of the Company for proceeds of \$1,000 Mexican Pesos (\$66 USD).

On January 12, 2015, the Company incorporated a 99.9% owned subsidiary in Bangalore, India, called 5BARz India Private Limited. The Company has delivered prototype units into India which are in testing with Tier 1 cellular

network operators in the region. At the date of incorporation the Company issued one equity share representing a 0.1% interest in that Company, to the CEO and Director of 5BARz India Private Limited for 10 Indian Rupees (\$0.16 USD).

On June 30, 2015, the Company settled \$100,000 due to Dr. Gil Amelio, Chairman of the Company, by the issuance of 2,000,000 units at a price of \$0.05 per unit. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of \$0.30 per share. The warrants have a term of two years, expiring June 30, 2017.

#### **Note 11 – Investment in 5BARz AG**

On October 6, 2011, the Company incorporated a subsidiary Company under the laws of Switzerland, in the Canton of Zurich, called 5BARz AG. 5BARz AG issued 10,000,000 common shares of which 5,100,000 are held by the Company, 450,000 are held by officers and a consultant to the Company and 4,450,000 were held in escrow for resale by an investment banking Company in Switzerland called BDC Investment AG. In November 2014, the Company was advised that the investment banking firm (BDC Investment AG, “BDC”) involved in the financing of 5BARz AG in Zurich Switzerland, was placed into liquidation by Swiss Authorities. Certain other Companies funded by BDC including 5BARz AG were also ordered to be liquidated. On November 3, 2014 the Financial Regulatory body in Switzerland (FINMA), placed 5BARz AG in liquidation, as the Company had not commenced planned principle operations and was raising capital in the region. On May 18, 2015, the liquidation was completed and the Company was stricken from the record in Switzerland. The Company reflects a loss of \$155,251 incurred in the nine months ended September 30, 2015 as a result of the liquidation of the subsidiary (\$14,583 – December 31, 2014).

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 11 – Investment in 5BARz AG (continued)**

On October 19, 2011, the registrant, 5BARz International Inc. had entered into a Marketing and Distribution agreement with 5BARz AG, through which 5BARz AG held the exclusive rights for the marketing and distribution of products produced under the 5BARz brand for markets in Switzerland, Austria and Germany. That agreement did not have a royalty payment requirement, and remains effective as long as 5BARz AG is controlled by the Company. As the Company was liquidated the distribution agreement was terminated.

**Note 12 – Investment in CellLynx Group, Inc.**

On January 7, 2011 the Company entered into a stock purchase agreement with two founding shareholders of CellLynx Group, Inc. to acquire in aggregate 63,412,638 shares of the capital stock of CellLynx Group, Inc. for total proceeds of \$634,126. At that date the Company had paid \$170,000 as a deposit made under that agreement. On March 29, 2012 the Company entered into a securities exchange agreement and settlement agreement with each of the two founding shareholders of CellLynx Group, Inc. whereby in addition to the \$170,000 paid, the Company issued 1,250,000 shares of its common stock in exchange for the 63,412,638 shares of CellLynx Group, Inc. and mutual releases were signed between the parties releasing each from any further obligation.

On March 29, 2012, the Company acquired a further interest in CellLynx Group, Inc. by conversion of \$73,500 of convertible debt in CellLynx Group, Inc. for the issuance of 350,000,000 shares in the capital stock of CellLynx Group, Inc. As a result, in combination with the shares acquired from existing shareholders referred to above, the registrant acquired a 60% controlling interest in CellLynx Group, Inc. and has accounted for that acquisition as a consolidated subsidiary of the registrant effective March 29, 2012.

Subsequent to that acquisition, the Company has converted amounts due, pursuant to the convertible line of credit agreement between the Company and CelLynx Group Inc. as follows;

Date	Amount converted	Shares issued
April 13, 2012	\$ 7,700	51,333,333
May 15, 2012	\$ 58,500	390,000,000
May 21, 2013	\$ 9,375	375,000,000
March 31, 2014	\$ 26,250	105,000,000
July 10, 2014	\$ 31,620	155,000,000

Each of the conversions reflected in the preceding schedule increased the percentage ownership that the Company holds in CelLynx Group, Inc. to a 60% interest, subsequent to dilution arising from the acquisition of stock by others. At September 30, 2015 the Company had a 60% equity ownership in CelLynx Group, Inc. with the holding of 1,489,745,971 common shares.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 13 – Asset Acquisition Agreement**

On March 29, 2012, the Company and CelLynx Group Inc. entered into an agreement which provided several amendments to the agreement referred to above. As a result of those amendments, the following arrangements between the Companies were established;

- i. 5BARz International, Inc. acquired a 60% interest in the patents and trademarks held by CelLynx Group Inc., referred to as the “5BARz™” technology. That interest in the technology was acquired for proceeds comprised of 9,000,000 shares of the common stock of the Company, valued at the date of acquisition at \$0.20 per share or \$1,800,000 USD. The acquisition agreement also clarified that the ownership interest in the intellectual property does represent that proportionate interest in income earned from the intellectual property.
- ii. The Company had agreed to make available to CelLynx Group, Inc a revolving line of credit facility as amended in the amount of \$2.2 million dollars on October 5, 2010. Pursuant to this revolving line of credit facility, which was scheduled to expire on October 5, 2013, the Company advanced \$2,394,643 to the date of expiry. At September 30, 2013 the Company agreed to extend the term of the line of credit facility to CelLynx Group, Inc., for the lesser of one year, or the time that CelLynx Group, Inc. becomes self sustaining from royalty income. Under the amended terms of the line of credit facility, the Company has the right to convert amounts due under the facility into common stock of CelLynx, at a conversion rate which is calculated at 51% of the average lowest three closing bid prices of the CelLynx Group, Inc. common stock for a period which is ten (10) days prior to the date of conversion. This conversion rate was established previously by other parties that have funded CelLynx, and is being matched by 5BARz. At September 30, 2015, the Company holds 1,489,745,971 shares of the capital stock of CelLynx Group, Inc. and has a balance of \$3,022,347 principle and interest due under the line of credit facility from CelLynx Group, Inc. On September 30, 2014 the Line of Credit agreement between the parties matured. CelLynx is a consolidated subsidiary of 5BARz International Inc., since March 29, 2012.
- iii. Pursuant to the Master Global Marketing and Distribution agreement between 5BARz International, Inc. and CelLynx Group, Inc., the registrant was obligated to pay to CelLynx Group, Inc a royalty fee amounting to 50% of the Company’s Net Earnings, from products or license arrangements related to the 5BARz™ technology, in a ratio equal to the CelLynx proportionate interest in the underlying technology. Subsequent to the acquisition by 5BARz of a 60% interest in the intellectual property from CelLynx, that Royalty was reduced to an effective Royalty amount of 20% of net earnings from products or license arrangements related to the 5BARz technology. That fee would be paid on a quarterly basis, payable in cash or immediately available funds and shall be due and payable not later than 45 days following the end of each calendar quarter of the year. The asset acquisition agreement amendment referred to herein specified that the royalties would be paid in relation to the ownership of the intellectual property. In addition as a result of the acquisition of a 60% interest in CelLynx Group, Inc. by the registrant, this royalty item is an

intercompany transaction which in the future will be eliminated upon consolidation in financial reporting of the consolidated financial results of 5BARz International Inc. and subsidiaries.

F-27

---



**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 14 – Accounts payable and accrued liabilities**

Accounts payable and accrued expenses are comprised of the following:

	September 30, 2015	December 31, 2014
Product development costs	\$914,947	\$556,470
Consulting and wages	1,921,483	912,045
Legal and administrative	463,715	165,587
Acquired liabilities – CellLynx - 2012	1,108,090	1,072,328
Other	249,699	159,846
Total	\$4,657,934	\$2,866,276

**Note 15 – Litigation**

Prior to the Company's investment in CellLynx, on July 19, 2010 certain claims for unpaid wages were filed against CellLynx, Inc. Judgments were obtained commencing in August 2011 for back wages by some of its former employees. Some of those claims have been partially paid and others were expected to be paid in the normal course of business or were to be otherwise defended. Those claims have now been incorporated into California Labor Commission awards in favor of those former employees. Those awards total approximately \$263,000 depending on interest charges. It is the Company's intention to pay these amounts. As of September 30, 2015, the Company has accrued \$263,000 in its financial statements.

On May 7, 2015, the Companies registered records office in Nevada received a complaint filed in the Los Angeles Superior Court against 5BARz International, Inc. by IRTTH Communications LLC claiming breach of contract and claiming unpaid fees, interest and expense claims in the amount of \$82,040. *IRTH Communications LLC vs 5BARz International, Inc. SC1124140 (County of Los Angeles – West Judicial District)*. On August 5, 2015 the Company received a default judgment in the amount of \$84,947 including costs and interest. On August 19, 2015, the Company paid \$5,000 related to the judgment. The balance accrued in the Company's financial statements at September 30, 2015 is \$79,947. On December 30, 2015 the Company settled the amount due by delivery of 500,000 common shares and the agreement that a cash adjustment will be made if the shares do not have a value of \$79,947 six months from the date of issue.

On May 13, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc, and Daniel Bland, by Assured Wireless International Corp. claiming breach of contract and claiming unpaid fees and interest of \$171,159, plus penalties. *Assured Wireless vs. 5BARz International Inc, and Daniel Bland 37-2015-00012766-CU-BC-CTL (County of San Diego)*. The claims also alleges unjust enrichment of \$20,000 as well as \$50,000 for alleged negligent interference with prospective economic relations. As of September 30, 2015 the Company has accrued \$171,159 for a potential liability, however that amount is in dispute. The Company and Mr. Bland have filed answers generally denying plaintiff's claims and asserting affirmative defenses.

On August 14, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego on August 4, 2015, against 5BARz International Inc. by, Pluto Technologies, Inc. claiming breach of contract and claiming unpaid fees, charges for equipment repairs and interest of \$70,750. *Pluto Technologies, Inc. vs 5BARz International, Inc. 37-2015-00025796-CU-BC-CTL (County of San Diego)*. It is the Company's intention to vigorously defend the lawsuit. It is too early in the process to determine the likelihood of outcome. In addition, on July 24, 2015 the owner of Pluto Technologies, Inc., Mr. James Fraley, filed a lawsuit in the Superior Court of the State of California, County of San Diego against 5BARz International Inc., claiming breach of contract and claiming unpaid fees, expenses and salaries in the amount of \$148,920. *James Fraley vs. 5BARz International, Inc. 37-2015-00025016-CU-BC-CTL*. As of September 30, 2015 the Company has made a provision of \$212,943 payable to the petitioners. It is the Company's intention to vigorously defend the lawsuits.

In addition to the above, the Company may become involved in legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 16 – Product Orders and Shipments**

**a. Product Orders and Shipments into India**

On August 19, 2015 the Company received two purchase orders from Vodafone Mobile Services Limited, a tier one cellular network operator in India. The goods were shipped into Delhi and Mumbai and were provided as promotional items and expensed when shipped. On December 23, 2015 and January 9, 2016 two further Purchase Orders were received from Vodafone which represent the commencement of on-boarding of the 5BARz Cellular Network Extenders into this tier one cellular network operators supply chain in India. The Company will recognize the revenue on the sales as proceeds are received from our customer. Further, on February 16, 2016 the Company received an initial purchase order from another tier one cellular network operator in India.

**b. Product Orders in Mexico**

During the period August 20, 2015 to October 1, 2015 the Company received purchase orders for sales of 5BARz Road Warriors in Mexico, representing the first sales of those products in Mexico. The Company will recognize the revenue on the sales in the quarter that proceeds are received on the sales.

**Note 17 – Subsequent Events**

**a. Sales of Common Stock**

During the period October 1, 2015 to March 7, 2016 the Company issued 29,601,000 units at a price of \$0.05 per unit for aggregate proceeds of \$1,480,050. Each unit is comprised of one share and one share purchase warrant to acquire a

second share at a price of \$0.20 per share acquired, with a two year term on the attached warrant.

On October 12, 2015 the Company issued 1,500,000 shares at a price of \$0.10 per share, for services with a total value of \$150,000.

On October 14, 2015 the Company issued 900,000 shares at a price of \$0.11 per share, for services with a total value of \$ 99,000.

On October 20, 2015 the Company issued 400,000 shares at a price of \$0.10 per share, for services with a total value of \$40,000.

On October 22, 2015 the Company issued 500,000 shares at a price of \$0.10 per share, for services with a total value of \$50,000.

On October 26, 2015 the Company issued 416,666 shares pursuant to a notice of conversion of a convertible note at a price of \$0.048 per share, for the conversion of \$20,000 (see item c(ii) below)

On November 6, 2015 the Company issued 200,000 shares pursuant to a notice of conversion of a convertible note at a price of \$0.041 per share, for the conversion of \$8,200 (see item c(iii) below)

On December 2, 2015 the Company issued 360,000 shares at a price of \$0.08 per share, for services with a total value of \$28,800.

On December 21, 2015 the Company issued 1,500,000 shares at a price of \$0.10 per share, for services with a total value of \$150,000.

During the period from December 21 to December 24, 2015 the Company issued 8,730,000 shares for the sale of stock at a price of \$0.05 per share in lieu of warrants that have expired. The sales has a total value of \$436,500.

On December 30, 2015 the Company issued 500,000 shares at a price of \$0.15 per share, for services with a total value of \$75,000.

F-29

---

**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 17 – Subsequent Events (continued)**

On December 31, 2015 the Company issued 500,000 shares at a price of \$0.05 per share, for services with a total value of \$25,000.

On December 31, 2015 the Company issued 3,000,000 shares at a price of \$0.05 per share in settlement of a convertible note with a total value of \$150,000 (see item c(i) below)

On December 31, 2016 the Company issued 124,000 shares at a price of \$0.05 per share, for services with a total value of \$6,200.

On January 19, 2015 the Company issued 1,578,463 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.0441 per share, for a conversion value of \$69,626 (see item c(iv) below)

On January 20, 2015 the Company issued 200,000 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.06 per share, for a conversion value of \$12,000 (see item c(iii) below).

On February 20, 2016 the Company issued 225,000 shares at a price of \$0.09 per share, for services with a total value of \$20,250.

On February 29, 2016 the Company issued 45,455 shares at a price of \$0.11 per share, for services with a total value of \$5,000.

On March 6, 2016 the Company issued 2,875,000 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.05 per share, for a conversion value of \$143,750 (see item c(v) below)

On March 6, 2016 the Company issued 8,625,000 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.05 per share, for a conversion value of \$431,250 (see item c(v) below)

**b. Issuance of Convertible Promissory Notes**

During the period October 7, 2015 to October 10, 2015 the Company entered into four convertible note arrangements with certain investors, in the principle amount of \$85,000. Interest is accrued on the notes at a rate of 8% per annum, and the notes mature one year from the date of issue. The notes are convertible after 183 days by the borrower at a conversion price of the lesser of \$0.05 per share or 70% of market, defined as the lowest trade price for a period 20 days prior to the notice of conversion, if VWAP of the shares drops below \$0.05 with a 10 day look back. In no case may the debt be converted at less than \$0.01 per share. The Company may prepay the note principle and interest at a rate of 125% of principal and interest within 90 days of the issue date and at a rate of 135% after 90 days from the issue date.

On October 28th, 2015 the Company entered into a convertible note arrangement with an investment company, in the principle amount of \$100,000. Interest is accrued on the note at a rate of 12% per annum, and the note matures on July 28, 2016. The note is convertible at any time by the borrower at a conversion price which is the lesser of closing sale price on the close date of the note or 60% of market, defined as the lowest trade price for a period 25 days prior to the notice of conversion. The Company may prepay the note principle and interest at rates from 145% of principle and interest within 180 days from the issue date. After 180 days the note may not be prepaid.

On October 30, 2015 the Company entered into a convertible note arrangement with an investment company, in the principle amount of \$105,000 of which \$100,000 was advanced to the Company at the inception of the note. Interest is accrued on the note at a rate of 8% per annum, and the note matures on October 30, 2016. The note is convertible at any time by the borrower at a conversion price which is the lesser of closing sale price on the close date of the note or 60% of market, defined as the lowest trade price for a period 10 days prior to the notice of conversion. The Company may prepay the note principle and interest as follows, 125% from day 1 to 90 days, 140% from day 91 to 180 days, 150% after 180 days.





**5BARz International, Inc.**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 17 – Subsequent Events (continued)**

**c. Settlement of Convertible Promissory Notes:**

During the period October 6 through December 24, 2015 the Company repaid cash of \$617,000 in settlement of a convertible note. On December 31, 2015 the Company entered into a settlement agreement whereby the note was settled by the issuance of 3,000,000 common shares and a required cash payment of \$83,000. The \$83,000 is due no (i) later than June 30, 2016. The settlement agreement provides for the cancellation of the convertible note and the Company has reflected the share issuance and an account payable of \$83,000 at December 31, 2015. The note has been cancelled at December 31, 2015. The original note was issued on July 9, 2015 in the principal amount of \$450,000.

On October 26, 2015 the Company issued 416,666 shares pursuant to a notice of conversion of a convertible note at a price of \$0.048 per share, for the conversion of \$20,000. On November 20, 2015 the Company issued a further (ii) 3,926,923 shares representing payment in full of the balance due on the convertible of \$191,750 at a price of \$0.049 per share and the convertible note was cancelled. The original convertible note was originally issued on May 3, 2015 in the principal amount of \$385,000 of which \$175,000 was funded by the note holder. On November 20, 2015 the balance due pursuant to the terms of the note was paid in full and the note was cancelled.

On November 6, 2015 the Company issued 200,000 shares pursuant to a notice of conversion of a convertible note at a price of \$0.041 per share, for the conversion of \$8,200. On January 20, 2016 the Company issued 200,000 shares pursuant to the terms of a settlement agreement on that note at a price of \$0.0618 per share for the (iii) settlement of \$12,350 due under the terms of the note. In addition that settlement agreement provides for a series of payments to be made on the note over a period to September 30, 2016 in the aggregate amount of \$120,000. At the date of issue of this report additional payments of \$12,500 have been made pursuant to the terms of that settlement agreement. The convertible note was originally issued on May 6, 2015 in the principal amount of \$110,000.

(iv) On January 19, 2016 the Company issued 1,578,463 shares pursuant to a notice of conversion, in full settlement of the principal and interest due on a convertible note at a price of \$0.0441 per share, for a conversion value of \$69,626. The original convertible note was issued on July 17, 2015 in the principal amount of \$66,250. The conversion of the note represents payment in full under the note agreement and the note was cancelled on January

19, 2016.

(v) On March 6, 2016 the Company issued 11,500,000 shares to two convertible note holders at a price of \$0.05 per share, in settlement in full of principal and interest due pursuant to the terms of convertible notes in the aggregate amount of \$575,000. The original convertible notes were entered into on March 6, 2015 in the principal amount of \$400,000.

**d. Litigation**

On January 8, 2015 a complaint was filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc, and certain offices of the Company by Warren Cope, a former consulting engineer of the Company claiming breach of contract and fraud claiming unpaid fees and interest of \$121,616, plus 100,000 options exercisable at a price of \$0.10 per share. *Warren Cope vs. 5BARz International Inc, et al 37-2016-00000510-CU-BC-CTL (County of San Diego)*. On February 29, 2016 the parties entered into a settlement agreement which provided for payments of cash in the aggregate amount of \$121,616 by May 15, 2016 and the issuance of the 100,000 options. The settlement agreement provides a stipulation of entry of judgment in the event of a default in payments. The Company has accrued \$121,616 as a liability at September 30, 2015.

On March 10, 2016 a complaint was received, filed in the Eleventh Judicial Circuit Court in Miami-Dade County, Florida, against BARz International, Inc. and certain officers and employees of the Company by Group 10 Holdings, LLC a lender by way of convertible debenture, claiming breach of contract, fraud, negligent misrepresentation and unjust enrichment, claiming \$110,000 plus interest at 12%. *Group 10 Holdings vs 5BARz International, Inc. et al 2016-005597 CA 01*. The Company has reflected a balance at September 30, 2015 due to the lender of \$114,821. The Company and defendants will be filing an answer to the complaint within 20 days of service.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **Plan of Operations**

#### **Business**

5BARz International Inc. ("5BARz" or the "Company") is a leading wireless Company which has designed and patented a line of cellular network infrastructure devices for use in the office, home and mobile market places. The Companies products incorporate multiple patented technologies to create a highly engineered, single-piece, plug 'n play device that strengthens weak cellular signals to deliver high quality signals for voice, data and video reception on cell phones and other cellular equipped devices. The 5BARz® solution represents a critical solution for cellular network carriers in providing a clear, reliable, high quality signal for their subscribers with a growing need for high quality connectivity, especially as relates to the use of data on mobile devices. The Company's products are engineered to incorporate a great number of features more fully addressed herein.

The Company is in the process of developing the global commercialization of the cellular network product enhancements to facilitate the expansion through cellular network operators, with each sector of integration to be managed in geographic areas. The initial business focus is currently in India, with formative steps taken in Latin America, the U.S., Africa and Western European market sectors.

We were incorporated in Nevada on November 17, 2008 and the Company has offices in the States of California and Florida as well as subsidiary operations in Mexico and India. The address of the Company's Innovation Center in San Diego is 9444 Waples Street, Suite 140, San Diego, California, 92121, and our centralized telephone number is 877-723-7255. Our web site is [www.5BARz.com](http://www.5BARz.com). Through a link on the Investor Relations section of our website, we make available the following filings as soon as reasonably possible after they are electronically filed with the Securities and Exchange Commission (SEC): our Annual Report on Form 10K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 (a) or 15(d) of the Exchange Act. All such filings are available free of charge. The information posted on our web site is not necessarily incorporated into this report.

During the recent quarter, the focus of the Company has been multi faceted;

In India, our newly established subsidiary Company, working in conjunction with our team of contract engineers in the country, have been active working with some of the largest cellular network operators, completing extensive testing programs of the Company's products and working on the integration of those products into the cellular network

operators portfolio of solutions for the improvement of their network. The near term objective is to commence the supply of products to those cellular network operators and integrate the 5BARz® products into their supply chain. Participating cellular network operators can expect vastly improved connectivity for their subscribers in the region. The more significant improvements that subscribers will experience are (i) significantly improved upload and download times for data transmission, (ii) clearer voice communication with fewer dropped calls (iii) a reduction in radio frequency emissions at the handset utilized by the subscriber and (iv) improved battery life on the handset, to mention a few.

During the recent quarter, the Company received initial purchase orders from one of the largest cellular network operators in India for units that are specifically channelized for operation on that operators network. The units were shipped in September 2015 pursuant to those purchase orders. The Company has received very positive feedback on the operation of these units in India. Testing has indicated data rate improvements up to 100%, elimination of dropped calls and an elimination of buffering for audio/video reception. It should be noted that the product designed for the market in India is designed in a configuration that is functional to provide services to 91 Countries globally, with an aggregate subscriber base of 2.98 billion subscribers comprising some of the most significant wireless markets in the world. Further purchase arrangements are underway with a planned on-boarding of product to integrate the Companies products, into that supply chain of our customer. In addition, sales and marketing efforts with other cellular network operators in India are progressing with product deliveries expected in the first quarter of 2016.

In the US, the Companies innovation center in San Diego has been focused upon the logistics required to meet the pending needs of the marketplace in India as well as the transition of product manufacturing from the US to India for that marketplace. In addition, the Engineering team in San Diego have continued the development of new product enhancements which will improve the products flexibility with respect to operational characteristics for various other global markets, including the US. Cellular networks throughout the world are comprised of variable configurations, using 2G, 3G and 4G LTE technologies, operating on variable bands and frequencies. New technology being integrated into the Companies products will serve to accelerate the Company's ability to customize product for specific market needs in various geographic areas and cellular network configurations. In addition, technological developments are being completed to enhance the "mobile" product first introduced in 2010 by the Company, improving the functional and simplicity of use of that product.

In Mexico, the inventory of Road Warriors have been presented to retail operators in the region and the Company has received expressions of interest from them to carry the product. However, that commitment is associated with a requirement for the funding of sales and marketing programs in the region by the Company, and the related working capital requirements for inventory. The Company has made the strategic decision to focus resources on the more significant activity in India at this time, and to commence the retail program in Mexico and Latin America, subsequent to the launch in India.

### *Strategy and focus areas*

Our focus is on three foundational priorities;

- Leadership in our core business, maintaining the highest standards in developing highly engineered devices to manage cellular signal in the vicinity of the user.

- Effective collaboration with cellular network operators to ensure that our products fully meet their needs in providing their subscriber base with a portfolio of state of the art solutions for maintaining excellence in cellular connectivity.

- Architectural design creation, to facilitate the effective integration of the Companies product into new and innovative applications, for use in automobiles, computers and numerous other areas of application.

The Company is uniquely positioned to take advantage of recent market transitions. As more and more users are migrating to the use of cellular equipped devices for communication, internet access, navigation and even entertainment, consumer demand for clear and consistent cellular signal has never been more important. In our opinion, this evolution driven by mobile device proliferation is in early stages. 5BARz is uniquely positioned to meet this growing demand with their developing line of product.

The Company's recently introduced, highly evolved innovative, carrier grade device, incorporates technologies and a combination of functionality which represents the most advanced product developed in this market, to date. This next generation cellular network extender, branded as 5BARz® incorporates patented technology to create a highly engineered, single-piece, plug 'n play unit that strengthens weak cellular signals to deliver higher quality signal for voice, data and video reception on cell phones, and other cellular equipped devices.

### ***Products***

The 5BARz Cellular Network Extender was unveiled at the Mobile World Congress in Barcelona, Spain, March 2014. Since that time the product has undergone significant product field testing in international locations and improvements during the year, resulting in a product which management consider to be ready for deployment.

This product supports 2G & 3G technologies for cellular devices, and has been designed in configurations which operate on either a single frequency or multiple frequencies. The technology has successfully integrated both send and receive antennae into the single device, and hosts an abundance of features which have never before been integrated into a single portable cellular device.

The Company's initial product, *the Road Warrior*, won the prestigious 2010 innovation of the year award at CES (the largest consumer electronics show in the world) for achievements in product design and engineering. The *Road Warrior*, has passed FCC Certification, and has been produced in limited quantities to date by a contract manufacturer in the Philippines. 5BARz current technological developments have eclipsed the original Road Warriors produced.

Management at 5BARz are confident that this new cellular device will alleviate much of the frustration experienced by users globally associated with weak or compromised cellular signal. This technology facilitates cellular usage in areas where structures, create "cellular shadows" or weak spots within metropolitan areas, and highly congested areas such as freeways, and also serves to amplify cellular signal as users move away from cellular towers in urban areas. The market potential of the technology is far reaching.

The market opportunity for the 5BARz™ technology represents nearly 7 billion cell phone subscribers worldwide serviced by 900 cellular network operators. These cellular network operators represent the Company's primary point of entry to the Global marketplace.

The 5BARz business opportunity to bring this state of the art technology to market represents a significant step forward in the deployment of micro-cell technology in the industry.

### **Company History & Corporate Development**

5BARz was incorporated on November 17, 2008, is a Nevada Corporation and was a designated shell Company until 2010. In 2010 the Company acquired the "Master Global Marketing and Distribution Rights" for the marketing and distribution of 5BARz™ products throughout the world from CelLynx Inc., a California based Company. In addition to the acquisition of the marketing and distribution rights, the Company acquired a 60% interest in the underlying intellectual property comprising the 5BARz™ products, and holds a security interest over the balance of those assets.

On March 27, 2012, 5BARz acquired a 60% controlling interest in CelLynx Group Inc. and its consolidated subsidiary CelLynx Inc. Cellynx was the original developer of the core technology underlying the 5BARz business.

On January 12, 2015, 5BARz International, Inc. incorporated another subsidiary Company, 5BARz International, SA DE CV in Mexico. The Company is a 99% owned subsidiary of 5BARz International, Inc. with the remaining 1% owned by Daniel Bland, the CEO of 5BARz International, Inc. The Company has obtained the necessary product approvals for the sale of the 5BARz Road Warrior product in Mexico, and has imported a limited inventory of product for resale in the Country.

On January 12, 2015, 5BARz India Private Limited was incorporated in India, a 99.9% subsidiary of 5BARz International, Inc. The Company has delivered prototype products into India in December 2014, and that product is experiencing very positive test results. The Company has developed interest in the product from Tier 1 cellular network operators in the region, with testing programs in process.



During 2012 and 2013, the Company presented the first version of our product, the “Road Warrior” to Cellular Network operators in order to establish market recognition and interest in the product globally. Having established expressions of interest in the product, in June 2013 the Company entered into a collaboration agreement with a leading cellular network operator. Through that agreement, we established a product development program to deliver a product, designed with our partners input that meets their requirements, in order to integrate the product into their portfolio of solutions for network improvement.

In November 2013, 5BARz set up an Innovation Center in San Diego California, staffed by a talented engineering team and in addition established significant outsourced engineering and fabrication talent internationally. As a result, a state of the art product was developed working with our collaborative partners. The Company is very pleased with the quality of product provided with feature sets that meet and exceed those originally envisioned in our collaboration plan. The Company is equally pleased with the future development programs being developed, which significantly expands the horizons of the Company’s product line and our value proposition to the wireless industry.

As the Company’s newest products commence limited production, for distribution and testing by potential partners in locations around the world, our focus moves to the development of high volume manufacturing to meet global demand. Our manufacturing partner Flextronics represents an industry leader in the design, manufacturing, distribution and aftermarket support of electronic products. Flextronics operates through a network of facilities in more than 30 countries with a global workforce of 200,000. The association with Flextronics is a significant factor in establishing speed to market, and a support infrastructure that can be relied upon and a driver of competitive positioning.

### **Milestones**

2007: 5BARz™ working prototype was developed of an affordable consumer friendly single piece plug ‘n play booster with a minimum of 45dB of gain in both up and down paths. This was the initial proof of concept product.

July, 2008: Dollardex Group entered into an exclusive “Master Global Marketing and Distribution Agreement” (the “Distribution Agreement”) for the 5BARz™ products.

July 2009: First production run and FCC Certification of 5BARz Road Warrior

August 2009: Field testing and final modification of 5BARz Road Warrior

January 2010: 5BARz Road Warrior Selected as CES Innovations 2010 Design and Engineering Award. Marketing commenced in the Philippines for product designated for the U.S.

January 2011: 5BARz International Inc. acquires the “Master Global Marketing and Distribution Agreement” for the marketing and distribution of 5BARz™ products throughout the world, and enters into agreement for the acquisition of a 50% interest in the underlying intellectual property.

## Edgar Filing: 5BARz International, Inc. - Form 10-Q

January 2011 – 5BARz International Inc. engages business development consultants in Latin America, to present the 5BARz Road Warrior product to R&D departments at major wireless carriers in the region for field testing. That program resulted in positive feedback and recommendations to help guide the further development of the product line.

February/March 2012 – The Company formed an Advisory Board comprised of leading executives within the technology sector to assist in the integration of the 5BARz™ technology and products into global markets. See bios in news – [www.5BARz.com](http://www.5BARz.com)

Dr. Gil Amelio – Director ATT, Former CEO – Apple Computer

Mr. Marcelo Caputo – CEO Telefonica USA

Mr. Finis Connor – Founder of Seagate Technology and Connor Peripherals

March 2012 – 5BARz International Inc. completed the acquisition of a 60% interest in CellLynx Group, Inc. (the originator of the 5BARz™ technology), developing a fully integrated subsidiary for the global deployment of the 5BARz™ business opportunity.

August 2012 – Internal Engineering develop functional prototype units of the revised cradle-less 5BARz™ cellular network extender with several new and improved features over the Road Warrior unit.

June 2013 – Company enters into a Technical Collaboration with a leading international Cellular Network Operator, to deliver a network extender that will be designed and built, based upon the 5BARz™ patented technology, to meet the specific requirements of that wireless network operator.

October 2013 – Company opens its state-of-the-art “innovation center” in San Diego, California. The center houses the 5BARz’ engineering division as it expands operations to accelerate development of the 5BARz™ technology.

November 2013 – 5BARz appoints Gil Amelio, former CEO of Apple Computers as Chairman of the Board of 5BARz International Inc.

February 2014 – 5BARz files several new patent applications.

February 2014 – 5BARz International, Inc. unveils the 5BARz Network Extender at the Mobile Wireless Congress in Barcelona, Spain. This new product is a highly evolved, innovative, carrier grade technology and device that delivers much improved cellular signals, enhanced voice, data, and video reception, on cellular equipped devices.

August 2014 - 5BARz Hires Top Industry Executive to Launch Latin American Operations, Marcelo Caputo, a successful industry executive and former CEO of Telefonica USA.

August 2014 – 5BARz makes initial delivery of custom designed prototype device to Tier 1, Cellular network operator in Latin America, for product field testing and evaluation.

## Edgar Filing: 5BARz International, Inc. - Form 10-Q

November 2014 – 5BARz completes \$3.5 Million dollar private placement, proceeds used to progress the Company's technology and product line.

January 2015 – 5BARz engages David Habiger, an industry veteran and Senior Advisor at Silver Lake Partners and Venture Partner at Pritzker Group Venture Capital, as a member of its Advisory Board.

January 2015 – 5BARz incorporates subsidiary Company in Mexico, completes approvals on Road Warrior devices and imports limited inventory of product for resale.

January 2015 – 5BARz establishes Subsidiary Company in India, and commences field trials on custom designed prototype products. The Company also commences collaboration arrangements with Tier 1 cellular operators.

March 2015 - 5BARz India hires a Top Telecom Executive and engineer Mr. Samartha Raghava Nagabhushanam to serve as Managing Director and CEO of 5BARz India Private Limited.

March 2015 - 5BARz India signs an investment banking engagement agreement with Axis Capital Ltd. of Mumbai, India, with the intention of raising \$20 million USD to fund operations.

August 2015 – 5BARz receives initial purchase orders for product deliveries into Delhi and Mumbai India, from a Global Tier 1 Cellular Network operator.

September 2015 - 5BARz ships products into India pursuant to purchase orders referred to above. Initial testing results reflect data rate improvements up to 100%, elimination of dropped calls and a significant elimination of buffering for audio/video reception.

### **The Market Opportunity**

The market opportunity for the 5BARz™ technology represents nearly 7 billion cell phone subscribers worldwide and is growing as a result of the following factors;

· Dead zones, weak signals, and dropped calls are the biggest problems in the industry. Now, by adding internet and video, the quality issue is increasing exponentially.

· 76% of cellular subscribers use their mobile phone as the primary phone

· More consumers are using mobile phones for web browsing, up and down- loading photos, videos and music

· More mobile phones are operating at higher frequencies which have less ability to penetrate buildings

· Weak signals make internet applications inaccessible and slow and increase the drain on cell phone batteries.

· Forty percent of all mobile phone users report inadequate service in their homes or office and we estimate that 60% of the 6.8 billion mobile phone users worldwide consider continuous connectivity to be very important.

Consumer demand for quality in the cell phone user experience is becoming an increasingly important factor. The 5BARz™ technology meets this need. 5BARz is currently developing relationships with Cellular network operators internationally to integrate the 5BARz™ product into cellular networks globally.

### **Why Poor Signals Exist**

A variety of factors may cause dropped calls and dead zones, including congestion, radio signal interference, tower hand-off, and lack of coverage. Despite continued infrastructure investment by operators, and antenna technology improvements by base station providers and mobile phone makers, these problems will continue for the foreseeable future. This is because many of the contributing factors can't be controlled by the operators and manufacturers. To understand how innovative 5BARz® products are in improving phone signals, it's first important to understand the

causes of poor signal quality.

### *Congestion*

In 1999, sales of mobile phones surpassed combined sales of personal computers and automobiles. By 2010, mobile phones had replaced land-line phones in 30% of U.S. households. Smart phones, led by iPhones and Android phones, have become indispensable personal assistants. Laptop computer sales outnumber desktop computer sales, and most laptops are equipped with cellular data chipsets or USB modems. Apple's iPad has sparked the connected tablet market too. Vending machines, automobiles, mobile sensors, and many other devices include "machine to machine" cellular data modules. As a result, the number of cellular voice and data devices will soon exceed the number of people on Earth.

If sheer numbers weren't enough, new uses for mobile devices are causing even faster growth in bandwidth usage. Obvious uses include video entertainment, videoconferencing, downloaded and streaming music, MMS, email, and application downloads. Facebook, Twitter, Foursquare, and many other social networking applications put further load on operator networks. Also, surprising sources of traffic have emerged, such as deliberate "miscalls". A miscall is when one subscriber calls another, but hangs up before the receiving party answers. Since operators don't charge for these uncompleted calls, subscribers are using miscalls as a free way to communicate. In India, orders for milk are made this way. In Syria, five miscalls in a row signals the recipient to "go online" to the Internet and chat. In Bangladesh, it's estimated that up to 70% of traffic at peak times is due to miscalls. This practice isn't limited to countries with low per-capita income, and yet it places a high load on operator networks.

There are sources of congestion based on location and time, too. Transportation clusters like airports, major highway intersections, bridges, and toll road gates all bring many people together at peak times. Also, because of home land-line replacement, many residential neighborhoods have many mobile phones in simultaneous use in mornings and evenings. Lastly, local population growth and immigration can result in too many phones for existing infrastructure. Due to long planning times, investment requirements, local government permits, and construction time, it's difficult for infrastructure to keep up with the pace of change in many developing areas, especially in growth countries.

### *Radio Signal Interference*

Interference comes from both obvious and subtle causes. Certain materials aren't transparent to radio signals, especially durable materials used in buildings, large structures, and even automobiles. As a result there are radio shadows in which a mobile phone can't sense the signal from a base station. In addition, radio signals from adjacent channels or reflected signals can interfere with each other due to wave cancellation effects. In some cases these forms of interference primarily attenuate the signal (make it weaker). However, interference can also add noise, so that the ratio of signal to noise becomes too low for the mobile phone and the base station to understand each other.

### *Tower Hand-Off*

Mobile phone networks are called "cellular" networks because they are made up of overlapping areas of coverage that are provided by base stations in fixed locations. As a mobile subscriber travels by automobile or train, he will eventually reach the limit of a base station's coverage. At that point, his mobile phone will "hand off" to a base station for the next coverage area. If signal quality is poor due to interference, or if the new base station is congested with too many mobile phones, the subscriber's connection may be lost.

### *Lack of Coverage*

Some rural or developing areas don't have enough people or population density for operators to justify the cost of installing base stations except at wide intervals. In these areas the signal strength from the base station or the mobile phone may be too low to create or maintain a connection. This results in "dead zones" or dropped calls.

### **Solutions to Poor Signal Quality**

Operators know that dead zones, dropped calls, and poor voice quality are big problems, and that re-dialing while driving can be unsafe. Operators also are concerned about subscribers' ability to make emergency calls. They understand that people rely on mobile phones for business and connecting with family. As mobile phones replace landlines, operators are especially aware that mobile signal quality is critical. Operators also see that wireless data is increasingly important for personal and business use.

To help, operators work with phone and base station manufacturers to improve antenna performance. They invest in new base stations in growth areas. They invest in technologies that enable more connections per base station. Operators have even provided refunds for dropped calls.

However, many factors causing poor signal quality can't be controlled by operators. Therefore products have emerged to help, provided by operators or companies who sell to either operators or subscribers.

### *Femtocells*

Operators can provide femtocells to subscribers with poor signal quality at home. Usually the subscriber pays for hardware, installation, or a monthly fee. Femtocells are carrier grade, and are like small base stations that communicate with operators by using the home Internet connection as a "backhaul". In addition to backhaul the incoming call is routed thru the internet as well, which leads to the degradation of a call when trying to access the internet as well as engaging in a call. Lastly, femtocells only work with phones from one operator, so families with phones from multiple operators may have to request multiple femtocells.

#### *Repeaters*

Repeaters are usually carrier-grade equipment and are programmed for a specific operator. They extend cellular networks into buildings and small offices. As with femtocells, installation is complex and if not done properly they can cause network problems. Unlike femtocells, repeaters do not use the local Internet connections, but rather receive and re-transmit the signals between base stations and mobile phones.



### *Boosters*

Boosters are usually sold online and through retail. They vary widely in amplification power, quality of amplification, and power balance. For example, these products amplify signals at 1, 3, 5, or even 10 watts all the time. Using power over 1 watt increases the probability that a booster will interfere with surrounding mobile devices. Also, it would be more energy efficient to adapt amplification power as needed, rather than to simply use the same wattage constantly. Many boosters don't support balanced power in both directions between base station and mobile phone. This may result in only solving the signal quality problem in one direction. Since communication is bi-directional, this doesn't actually solve the problem. Varying quality of amplification also introduces noise, which can interfere with surrounding devices. Further, in order to avoid a feedback loop, Boosters have to be separated into at least two units, a receive and send antennae. The communication between these two units in some applications utilize wires, in others, utilize a 5Mhrtz signal which is high frequency and does not penetrate building structure well, also subject to WiFi interference. These units are costly and require installation effort, to sustain signal quality. The manufacturing cost is more than 2 times that of the 5BARz unit, and they have relatively high power consumption to operate.

### **A New Class of Solution**

5BARz has evaluated the causes of poor signal quality, the needs of both operators and subscribers, and the solutions in the market. Femtocells, repeaters, and boosters either don't solve all parts of the problem, or aren't optimal due to cost or other drawbacks. Using expertise starting with a team of engineers who designed sophisticated base station amplifiers for operators, 5BARz has developed a new class of carrier-grade technology. That engineering team grew to a multi-national teams of engineers working on project specific challenges integrated into the 5BARz® products. The result is a highly engineered hybrid of repeaters and boosters, intended for use in automotive applications, home, and office. 5BARz has tested these products in the lab, in the real world, and with operators. These products advance the state of the art to provide the following advantages:

#### *Low Power Use*

5BARz® products only amplify when required. The automotive products use less than 1/2 watt, while the home product uses less than 1 watt. This not only saves energy, but also minimizes interference with other wireless devices and the network itself. In fact, new rules being proposed by the U.S. Federal Communications Commission are expected to mandate low power standards such as 5BARz now provides.

#### *Simple Setup*

5BARz® products don't require a technician to run wires, carefully determine proper location, or optimize orientation. No use of home Internet connection is required, and there are no switches or settings. The unit has a simple plug and play installation requirement.

#### *Balanced Amplification*

This feature, plays a key role in ensuring that the product does not interfere with the macro network, and is a feature covered by the Company's patented technology. Receive and sent signals need automatic balance management in order for both directions of a communication channel to be improved. 5BARz® products are not only *smart* about adapting amplification levels, but also about balancing amplification for incoming signals from the base station, and return signals from the mobile phone. This attribute is critical in that it ensures that the operation of the unit automatically avoids interference with the Macro Network. This automated process is a part of the 5BARz® patented technology.

#### *Signal Stability*

5BARz has done extensive design, testing, and re-design to avoid a number of problems experienced by the antenna design of alternatives. For example, booster products can experience oscillations when people, animals, or vehicles move nearby. These oscillations can weaken the booster effect or cause interference with other wireless devices. Many booster products achieve size similar to 5BARz®' products by putting antennas close together in the same product package, but don't optimize radio wave interactions between those antennas. This weakens the boosters' effectiveness, and is one reason why other manufacturers compensate by using too much wattage, in turn wasting power and increasing the probability of interfering with other radio frequency devices and the network.

#### *Integrated Antennae*

The Company has developed and patented technology which facilitates the integration of both the receive and transmit antenna into the single device, without creating a feedback loop. This represents a very significant technological advance permitting the unit to be a self contained plug and play consumer electronic.

*Broadband / Narrow band support*

The Company's products can provide amplification for bands from 5 to 60 Mhz.

*Smart signal processing*

The Company's product is also capable of "interference & echo" cancellation, in addition to automatic noise suppression. As a result, the signal that reached your cell phone is both better quality and a stronger signal.

*Self regulating intelligent power management*

The unit is designed to sense cellular signal strength and will automatically adjust amplification to optimum levels.

*Enhanced cell phone user experience*

The 5BARz unit covers an area of some 4,000 square feet, providing a much increased voice experience and increased data throughput. In addition, the cell phone handset can experience power savings up to 80%.

*Additional features*

- May be factory tuned for specific channel or frequency
- Multi band 2G/3G support with 4G LTE coming soon
- No back-haul (internet access) required
- No latency
  
- NOC capable – Network operator may control the unit when required
  
- SON – Self Organizing Network capable – improving performance automatically.



**Intellectual property**

Title	Patent Application	Patent Issued
Cell Phone Signal Booster	11/625331 – US	8005513
Dual Cancellation Loop Wireless Repeater	12/106468 – US	
Wireless repeater	13/214983 – US	
Wireless Repeater Management Systems	12/328076 – US	
Dual Loop Active and Passive Repeater Antenna Isolation Improvement	12/425615 – US	
5BARz™ Trademark	78/866260	3819815
Multi-Band Wireless Repeater – CN	200980146487.1	
Multi-Band Wireless Repeater – IN	2288/DELNP/2011	
Multi-Band Wireless Repeater – KR	(PCT) 10-2011-7009297	
Multi-Band Wireless Repeater – MX	MX/a/2011/002908	301028
Multi-Band Wireless Repeater – US	12/235313	8027636
Remote Management of Network Extenders	61/943319	
High Gain Wireless Repeaters	61/943145	
Self Organizing Network Extenders	61/943797	



## Comparative Analysis

	5BARz	Femtocell	Traditional Repeaters
Options for Consumer	<ul style="list-style-type: none"> <li>· Plug and play solutions that significantly improves wireless service</li> </ul>	<ul style="list-style-type: none"> <li>· Carrier-specific box that connects to the internet through the broadband service at the home and acts like a short-range network tower site</li> </ul>	<ul style="list-style-type: none"> <li>· Bi-directional amplifier and external antennas Installation of antennas required with minimum spacing of 35 feet or more between the antennas</li> <li>· Need to determine what the two pieces of equipment, cables, and multiple power cords are for</li> </ul>
Easy to Understand	<ul style="list-style-type: none"> <li>· Simply place the unit where there is some or marginal wireless service, turn on the unit and the voice and data wireless service is improved for everyone</li> </ul>	<ul style="list-style-type: none"> <li>· Connect the unit to your broadband service where your router is located and the <b>voice only</b> wireless service should be improved throughout the home</li> </ul>	<ul style="list-style-type: none"> <li>· Complex manual ... Determine the ideal location for both antennas, outdoor network antenna and indoor coverage antenna, then determine ideal location for the bi-directional amplifier for proper cable routing to the antennas</li> </ul>
Cost	<ul style="list-style-type: none"> <li>· One-time equipment charge only \$299 5BARz Road Warrior</li> </ul>	<ul style="list-style-type: none"> <li>· Equipment charge \$250 for each carrier, 2 carrier house or SOHO equals \$500 equipment charge Equipment won't work if you change carriers Possible monthly fee Requires use of broadband service</li> </ul>	<ul style="list-style-type: none"> <li>· Equipment charge starting at \$350 for dual band Professional installation starting at \$200 Higher performance antennas starting at \$100</li> </ul>
Setup	<ul style="list-style-type: none"> <li>· Plug 'n play No adjustments One part works for all carriers</li> </ul>	<ul style="list-style-type: none"> <li>· Carrier-specific set up May require ISP support Currently Voice Only</li> </ul>	<ul style="list-style-type: none"> <li>· Go on roof to measure signal level; outdoor network antenna placement based on testing for 2 bars or more signal strength Antennas need to be spaced 35 feet or more apart</li> </ul>
Reliability	<ul style="list-style-type: none"> <li>· Designed by engineers and brought to production by managers trained in the Six Sigma quality process Self contained, fewest cables/connectors</li> </ul>	<ul style="list-style-type: none"> <li>· Broadband vulnerable: Degraded broadband throughput Power outage Depends on carrier down/power down on carrier command Intermittent handoffs with macro network</li> </ul>	<ul style="list-style-type: none"> <li>· External antennas less reliable Connectors Outdoor mounting Oscillation prone</li> </ul>

- Oscillation suppression circuitry

Installation

- None; Plug 'n play

- Needs to be collocated with broadband service GPS antenna may need to be installed near a window with a cable going to the femtocell

- Professional installation recommended



## Products and Markets

To date the Company has introduced two products to market incorporating the 5BARz® patented technology as follows;

5BARz Network Extender

5BARz Road Warrior

### Specifications:

System Gain: up to 95 dB

Physical dimensions: 140 X 100 X 41 mm

Weight: 300 Grams

Number of simultaneous users: 10

Frequency bands supported: 2100, 850, 900, 1700

Modes: 3G/2G (Next version will support 4G) and 1800

Power consumption: 5W

EIRP (uplink): 25 dBm

EIRP (downlink): 10 dBm

Flatness: +- 0.5dB

Noise figure: < 3.5 dB

Operating Temperature: 0 to 40 degrees C

External supply: 100 – 240 VAC

Commercial Grade Hardware

Complies with new FCC requirements for BBA sold in the USA after March 2014

### Specifications:

Maximum input power: +20 dBm

Output power: 0.25 watt average /1 watt maximum

Service Antenna: Cigarette lighter/power cord antenna

Frequency Bands: Full-band US Cellular and full-band US PCS

System gain Cell/PCS: 40/45 dB, self-optimizing

System noise figure: 5 dB nominal at maximum gain

Power Supply: 12 VDC

Power dissipation: 6 Watts

Dimensions: 5.0 x 4.75 x 1.35

Weight: 1 lb (0.45kg)



### **Markets and marketing strategy**

The Company's primary entry point to markets is through collaborative arrangements with Cellular Network operators. That market is comprised of nearly 7 billion cellular subscribers globally separated by geographic region as follows;

The Company has initially embarked upon a multi channel marketing strategy with initial emphasis in Latin America, India and Africa as a direct result of the very favorable factors and the stage of development of the cellular markets in those regions.

During 2011 through 2013, the Company introduced the initial product, the Road Warrior, to major wireless operators in Latin America for the purpose of their analysis of the 5BARz™ technology. It is the objective of management, that the 5BARz™ products and technology be integrated into the network infrastructure of selected cellular network operators in the region. The intent is to work with cellular network operators in integrating the fixed cellular network extenders, designed for use in the home or office markets. This fixed unit was first unveiled to the market in February 2014 at the Mobile World Congress in Barcelona Spain. These efforts have resulted in the development of a collaborative program, the first with a major global network operator in June 2013. This collaborative program has expanded from its inception to date with the Company building product for regions in India and South Africa as well as establishing collaborative arrangements with a greater number of network operators within those regions.

The mobile cellular network extenders (Road Warrior's), which are not carrier specific are to be marketed through more conventional distribution channels.



In addition, it is the intent of management to design future applications of the Company's technology that will be integrated into the marketplace through the redesign of the products, working in collaboration with Original Equipment Manufacturer's (OEM's), such as with automobile manufacturers, computer manufacturers, mobile home manufacturers etc.

The Company has been expanding its employee/consultant base in India, Latin America, and South Africa due to significant product interest in those regions. Further the Company has set a structure for the development of the German speaking market place in Europe, through a subsidiary operation 5BARz AG in Zurich Switzerland.

### **The Wireless Market in India**

With a subscriber base of more than 905 million by March 2014, the Mobile telecommunications system in India is the second largest in the world and has been available to private operators since the 1990s. GSM is comfortably maintaining its position as the dominant mobile technology with 80% of the mobile subscriber market. The mobile market is operated by the following cellular network operators;

### **The Wireless Market in India – continued**

On the global stage, India saw the fastest growth in new mobile-phone connections with 18 million net additions in the third quarter of 2014, according to a report by Swedish mobile network equipment maker Ericsson. The number of smartphones, which account for just 37 per cent of all mobile-phone subscriptions, is growing at 15 per cent compounded annual growth rate, and will cross 6,100 million by 2020. The falling cost of handsets, coupled with improved usability and increasing network coverage, are factors that are making mobile technology a popular phenomenon in the country.

In December 2014, 5BARz introduced a number of prototype units for use in India, to the Company's consulting engineering team working in the country for field trials, and then to the R&D department of a select cellular network operator working in the Country. It is the objective of 5BARz to manufacture and distribute the products, working in conjunction with cellular network operators in the country.

The following factors are considered to be particularly relevant with respect to the need for the 5BARz products in India.

In India the monthly churn rate for subscribers is 6% (BMI India Telecommunications Report, 2Q 2012, pp. 49-51). To provide to a cellular network operator a distinct competitive advantage, such as that provided by the 5BARz cellular network extender, could result in a substantive migration of customers to that network operator, and a reduction in churn.

As provided above, congestion is a prominent issue resulting in the degradation of cellular connectivity. India is the second most populated region in the world, and so the need for the 5BARz technology is most acute.

Mobile and Wireless Telecommunications issued a report, August 2013 which highlight a number of favorable factors being experienced in the wireless industry in India, which is positive for 5BARz entry into that market as follows;

- o The government has recently permitted Foreign Direct Investment in the telecom sector
- o The industry has moved toward a more friendly regulatory environment
- o Burgeoning data usage, has created the need for improved connectivity

Customer's happiness – A vital cornerstone of any service is the customer. His satisfaction is a direct indicator of running a good business. And this is primarily the service providers' responsibility. 5BARz is offering to service providers improved connectivity for their customers.

## **The LATAM Market**

The Company has analyzed the fundamentals of the mobile phone market in the LATAM countries and has determined that to be a key point for market penetration for the 5BARz™ products for the following reasons;

First, the mobile phone market has just gone through a very strong decade of growth in Latin America, with mobile subscriptions having overtaken fixed lines as the preferred method of communication. As a result Latin America's mobile telephone industry has a high degree of market penetration. Mobile subscriptions totaled 88.2% of the region's population, compared to 55.2% in Asia Pacific, 90.4% in North America and 50.6% in the Middle East and Africa. Having recently invested heavily in subscription development, the cellular network operators are now focusing upon the maintenance of their substantial customer base, and the 5BARz™ technology can contribute substantially to achieving that customer satisfaction.

The mobile telephone industry in Latin America has benefited from generally opening up to competition. This provides a very fertile ground for the introduction of a technology such as 5BARz™ to secure customer retention through quality of service.

The inherent geographical difficulties in laying fixed line infrastructure have encouraged a move to mobiles, but in addition, that geography, the Andean and Rainforest regions and expanses of rural areas again benefit from the 5BARz™ technology whereby weak cellular signal is amplified within the vicinity of the user.

Further the LATAM countries are experiencing a renewed era of strong growth, reflecting reviving economic growth and improving income levels. This again is a favorable factor for the introduction of our products to meet the growing demands of consumers.

In addition, the launch of 3G and mobile broadband services has increased demand for mobile subscriptions. Mobile broadband is particularly desirable in areas with no or limited access to cable internet services. Moving to mobiles offers consumers the benefits of on-the-move communications and advantageous introductory deals. Greater access to communications also helps to narrow regional divides. All of these factors are enhanced by the 5BARz™ experience.

Internet usage is expanding since 2010, with broadband internet subscriptions generally growing by higher rates than mobile subscriptions

Initial 3G market expansion is likely to be greater in the region's wealthier markets, such as Argentina, Chile and Mexico, and these have been specifically targeted by our Company. Latam subscribers are;

- ***Brazil: 271 million***
- ***Mexico: 92.9 million***
- ***Argentina: 56.7 million***
- ***Colombia: 49.1 million***
- ***Venezuela: 27.9 million***
- ***Chile: 21 million***
- ***Other countries: 103 million***
- ***Total: 621 million***



In 2014, the Company imported 1,000 Road Warrior units into the Region and obtained necessary approval for the sale of those units in Mexico. In January 2015, the Company incorporated a subsidiary company in Mexico to commence sales of that product. The R&D team are currently working on several new and innovative products that will fit the needs of the Region.

### **The DACH MARKET**

The DACH/D-Deutschland or Germany, A-Austria and CH-Switzerland group of countries in the European Union represents one of the most technologically advanced and progressive sectors of that economic group representing a German speaking majority population base of 90.3 million people, comprised of Germany with 78.3 million, Austria, 7.4 million, and Switzerland, 4.6 million. The Company had established a 94.3% owned subsidiary, 5BARz AG to operate the sales, marketing and distribution of the Company's products in this region of the world, pursuant to an exclusive license agreement. The subsidiary was liquidated in Switzerland but will be re-established in the region once the Company is prepared to commence planned principle operations.

The product which 5BARz introduced recently into India, has a technical configuration design which meets the operating requirements for the majority of the 130 million subscribers in this region. The Company has developed the strategic relationships and infrastructure so that it is poised to enter this marketplace as well.

**Results of Operations**

***Three month period ended September 30, 2015 compared to three month period ended September 30, 2014.***

	3 Months ended September 30, 2015	3 Months ended September 30, 2014	Difference
Amortization and depreciation	\$ 135,747	92,602	43,145
Bank charges & interest	8,503	5,285	3,218
Sales and marketing expenses	213,308	336,332	(123,024)
Research & development	970,424	1,115,386	(144,962)
General and administrative	918,044	748,043	170,001
Total Operating Expenses	2,246,026	2,297,648	(51,622 )
Other income (expenses)	(575,746 )	(101,659)	474,087
Net Income (Loss)	\$(2,821,772)	(2,399,307)	422,465

The three months ended September 30, 2015 reflects a net loss of \$2,821,772, representing an increase in the loss of \$422,465 compared to the corresponding three month period loss of \$2,399,307 for the period ended September 30, 2014. The largest component of this increase is interest of \$580,494 incurred during the quarter in 2015 which is related to financing by way of convertible debt.

The general and administrative costs increased from 2014 to 2015 by \$170,001. This amount is the result of a combination of the expansion of time and effort of the investor relations activities which increased by \$342,773 comparing with the corresponding period of 2014. In addition, salaries and wages increased by \$78,708 reflecting the increasing cost of staff in India. Consulting fees decreased from \$163,000 in 2014 compared to \$71,387 for the three months ended September 30, 2015, a decrease of \$91,613, representing a rationalization of costs in US operations.

In addition research and development expenses in 2014 were greater than 2015 by \$144,962. This decrease is comprised of a reduction of engineering services (outside engineering consulting) during the quarter from \$396,622 in 2014 to \$283,632 in 2015 a decrease of \$112,990. Further, supplies expense decreased from 2014 to 2015 to make up the difference.

The Company's net loss during the three month period ended September 30, 2015 was \$2,821,772 or \$0.01 per share compared to a loss of \$2,399,307 or \$0.01 per share during the three months ended September 30, 2014. The weighted average number of shares outstanding was 240,991,021 for the three month period ended September 30, 2015 and 186,700,918 for the three month period ended September 30, 2014..

*Nine month period ended September 30, 2015 compared to nine month period ended September 30, 2014.*

	9 Months ended September 30 2015	9 Months ended September 30, 2014	Difference
Amortization and depreciation	\$429,743	129,432	300,311
Bank charges & interest	20,243	9,066	11,177
Sales and marketing expenses	897,722	691,188	206,534
Research & development	2,418,319	3,192,105	(773,786 )
General and administrative	2,268,246	3,042,945	(774,699 )
Total Operating Expenses	6,034,273	7,064,736	(1,030,463)
Other income (expenses)	(2,107,158)	(101,659 )	2,005,499
Net Income (Loss)	\$(8,141,431)	(7,166,395)	975,036

The nine months ended September 30, 2015 reflects a net loss of \$8,141,431 representing an increase in the loss of \$975,036 compared to the corresponding nine month period loss of \$7,166,395 for the period ended September 30, 2014.

The significant increase in amortization and depreciation expense is the result of the Company's policy commencing in September 2014 to amortize the Company's intellectual property. The provision for amortization in 2015 was \$368,798 and was nil in 2014.

The general and administrative costs decreased during the nine months ended September 30, 2014 to 2015 by \$774,699. The largest component of this decrease was a reduction of stock based compensation from \$624,875 in 2014 to \$132,843 in 2015, a reduction of \$492,032. The stock based compensation in 2014 arose from the issuance of options to key employees and consultants under the Company Employee Stock Option Plan. The second largest component of this decrease is attributable to consulting fees of \$553,019 in 2014 compared to a reduced balance for the nine months ended September 30, 2015 of \$239,387, a decrease of \$313,632.

In addition research and development expenses in 2014 were greater than 2015 by \$773,786. This decrease in R&D expenses is comprised of a reduction of engineering services (outside engineering consulting) during the nine months ended September 30, 2015 from \$1,152,554 in 2014 to \$805,459 in 2015 a decrease of \$347,095. Further, supplies expense decreased from 2014 to 2015 from \$314,341 to \$119,543, a decrease of \$194,798. The Company relied less heavily on outside engineering services and supplies after their prototype products were effectively completed.

The Company's net loss during the nine month period ended September 30, 2015 was \$8,141,431 or \$0.04 per share compared to a net loss of \$7,166,395 or \$0.04 per share during the nine months ended September 30, 2014. The weighted average number of shares outstanding was 222,989,514 for the nine month period ended September 30, 2015 compared to 173,911,252 for nine month period ended September 30, 2014.

The Company's financial statements have been prepared assuming that the Company will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

The company will require additional capital to meet its' long term operating requirements. The Company expects to continue to raise additional capital through a multi-faceted strategy to include the further sale of equity securities, sales of equity securities by subsidiary Companies, debt and factoring facilities as the Company's sales progress.

### ***Liquidity and Capital Resources***

#### ***As at September 30, 2015***

As at September 30, 2015, the reporting issuer's current assets were \$415,227 and current liabilities were \$7,926,915, which results in a working capital deficit of \$7,511,688. The Company's working capital deficit at December 31, 2014 was \$3,500,797. This represents an increase in the Company's working capital deficit of \$4,010,891 or a 115% increase in the current year. The increase is comprised of two components. First, the Company has made a significant push during the current period in optimizing the performance of prototypes, delivered to Cellular Network operators in India. This resulted in an increase in short term unpaid product development expenses and consulting fees of \$1,367,915 over the balance at December 31, 2014. In addition, the Company secured increased debt financing during the quarter, increasing the current liabilities by \$1,877,630.

As at September 30, 2015, the Company's total assets were \$4,579,282 comprised of intellectual property in the amount of \$2,872,799 and goodwill in the amount of \$1,140,246. The intellectual property represents the technology, patents and patent applications and trademark registrations and license related to the 5BARz technology by the combined entity.

As at September 30, 2015, the Company's total liabilities were \$7,926,915, comprised of current liabilities of \$7,926,915 as described above. The increase in liabilities as at September 30, 2015 from year ended December 31, 2014 is related to current liabilities increase as discussed above.

Stockholders' equity decreased from an equity balance at December 31, 2014 of \$1,086,931 to a deficit balance of \$3,347,636 at September 30, 2015. This decrease of \$4,434,567 is attributable in the most part to equity transactions during the nine months ended September 30, 2015 of \$3,706,859 being offset by a loss during the period of \$8,141,431.

#### ***Cash Flows from Operating Activities***

For the nine month period ended September 30, 2015, net cash flows used in operating activities was \$3,027,498 consisting primarily of cash used for product development and administrative expenses.

***Cash Flows from Investing Activities***

For the nine month period ended September 30, 2015, net cash flows used in investing activities was \$23,854 comprised of additional patent expenditures of \$4,908 as well as \$18,946 of leasehold improvements.

***Cash Flows from Financing Activities***

The Company has financed operations through the issuance of both debt and equity securities. Convertible notes of \$2,169,750 were issued as well as the sale of equity securities in the amount of \$1,464,469. For the nine month period ended September 30, 2015, net cash flows provided from financing activities was \$3,160,447 compared to \$4,071,429 in the corresponding period of the prior year. This differential is the result of a decrease in the sales of equity securities and the pricing of those sales, due to a decrease in the market price of securities. The market for the Company's stock has limited liquidity and as a result pricing is relatively volatile.

### ***Plan of Operation and Funding***

The Company has entered into a series of private placements over the past several years to finance operations. Existing working capital, further sales of debt and equity securities, funding through the sale of equity securities from subsidiary operations and anticipated cash flow are expected to be adequate to fund our operations over the next twelve months. We have no bank financing arrangements. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt and an increase in liabilities due from individuals and businesses that work with the Company. In connection with our business plan, management anticipates additional increases in operating expenses and capital expenditures relating to: (i) development and marketing of our product; and (ii) working capital. We intend to finance these expenses with further issuances of securities. As the market for product commences in India the Company is working on the development of a \$20 million dollar equity sale in the India operations through an investment bank in India. Further, should the Company's market for securities exceed \$0.30 per share, the Company has 97.8 million warrants in the hands of existing stockholders. Consideration is being given to filing an S1 registration statement to qualify those warrants to provide for a financing facility for the Company through the exercise of those securities. Thereafter, we expect we will need to raise additional capital and generate revenues to meet long-term operating requirements. Additional issuances of equity or convertible debt securities will result in dilution to our current shareholders. Further, such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavors or opportunities, which could significantly and materially restrict our business operations.

### ***Material Commitments***

On January 11, 2011, the Company assumed a material commitment to CelLynx Group, Inc. to make available under the terms of a line of credit agreement \$2.2 million dollars, expiring October 5, 2013. On September 30, 2013 the Company agreed to extend the funding of CelLynx Group, Inc. under the terms of an amended Line of Credit Agreement. At the date of the extension of the line of credit agreement, the balance due to 5BARz International, Inc. was \$2,503,764. This is a subsidiary Company, and this funding will be paid when proceeds are available. The commitment to fund and debts provided under the line of credit agreement mature in the lesser of one year or when CelLynx earns sufficient royalty income to become self sustaining. The line of credit agreement matured on September 30, 2014. The balance due to 5BARz International, Inc., by its subsidiary Company, CelLynx Group, Inc., under the line of credit agreement, principle and interest on September 30, 2015 was \$3,065,490. This amount is eliminated on consolidation of the subsidiary in the Financial Statements of the combined entity.

On July 24, 2013 the Company entered into a lease agreement in San Diego for facilities, which commenced on October 1, 2013. In August 2014 the Company entered into a further commitment to expand the Companies leased facilities in San Diego for a period of 66 months. As a result, at September 30, 2015, the future minimum lease payments for the existing and expanded facilities will be \$1,286,338.



***Off-Balance Sheet Arrangements***

As of the date of this Quarterly Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### ***Going Concern***

In our Annual Report on Form 10-K for the year ended December 31, 2014, our independent auditors included an explanatory paragraph in its report relating to our financial statements for the years ended December 31, 2014 and 2013, which states that we have incurred negative cash flows from operations since inception, and expect to incur additional losses in the future and have a substantial accumulated deficit. These conditions give rise to substantial doubt about our ability to continue as a going concern. Our ability to expand operations and generate additional revenue and our ability to obtain additional funding will determine our ability to continue as a going concern. Our condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have prepared our financial statements assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business.

### **Recent accounting pronouncements**

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period," ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, "Compensation - Stock Compensation" as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015.

Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 on “Presentation of Financial Statements Going Concern (Subtopic 205-40) - Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. Currently, there is no guidance in U.S. GAAP about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern or to provide related footnote disclosures. The amendments in this ASU provide that guidance. In doing so, the amendments are intended to reduce diversity in the timing and content of footnote disclosures. The amendments require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for public and nonpublic entities for annual periods ending after December 15, 2016. Early adoption is permitted. The Company has adopted this ASU as of December 31, 2014 and its adoption resulted in the additional disclosures in Note 1, reflecting management’s assessment of the mitigating effect of management’s plans on the Company’s ability to continue as a going concern.

In April, 2015, the FASB issued ASU 2015-03 on “Simplifying the Presentation of Debt Issuance Costs” The ASU changes the presentation of debt issue costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability. Amortization of the cost is reported as an interest expense. The amendments in this ASU are effective for public business entities for annual periods ending after December 15, 2015. Early adoption is permitted. The Company will adopt this ASU effective December 31, 2015 upon issuance of its annual audited financial statements. At that time the Company would apply the new guidance retrospectively to all prior periods.

In July 2015, the FASB issued ASU No. 2015-11, “*Inventory: Simplifying the Measurement of Inventory*”, that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The Company will adopt this ASU effective December 31, 2015 upon issuance of its annual audited financial statements. At that time the Company would apply the new guidance retrospectively to all prior periods.

The FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The new standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities. The Company has not yet determined the effect of the adoption of this standard on the Company’s consolidated financial position and results of operations.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of March 31, 2015 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2015 or 2014, and it does not believe that any of those pronouncements will have a significant impact on our consolidated financial statements at the time they become effective.

### **Critical Accounting Policies and Estimates**

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

### **Goodwill and other intangible assets**

The Company accounts for goodwill and intangible assets in accordance with the accounting guidance which requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. The Accounting Standards Codification (“Codification”) requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, the Company may assess qualitative factors for some or all of its reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. In 2013, the Company first performed a qualitative assessment to identify and evaluate events and circumstances to conclude whether it is more likely than not that the fair value of the Company’s reporting unit is less than its carrying amount. Based on the Company’s qualitative assessments, the Company concluded that a positive assertion can be made from the qualitative assessment that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount. In accordance with the Codification, the Company reviews the carrying value of its intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of September 30, 2015 and 2014.

### **Long-Lived Assets Subject to Amortization**

-

The Company amortizes intangible assets with finite lives over their estimated useful lives and reviews them for impairment annually or whenever an impairment exists. The Company continually evaluates whether events or changes in circumstances might indicate that the remaining estimated useful life of long-lived assets may warrant revision, or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows in measuring whether the long-lived asset should be written down to fair value. Measurement of the amount of impairment would be based on generally accepted valuation methodologies, as deemed appropriate. There were no long-lived assets impairment charges recorded during the nine months ended September 30, 2015 and 2014.

### **Foreign currency translation**

Transactions in foreign currencies have been translated into US dollars using the temporal method. The functional currency of the Company's former subsidiary 5BARz AG, is its local currency (Swiss Franc – CHF). The functional currency of the Company's subsidiary 5BARz International SA de CV, in Mexico is the local currency, the Mexican Peso, and the functional currency in the Company's subsidiary 5BARz India Private Limited is the functional currency in India, the Indian Rupee. Under this method, monetary assets and liabilities are translated at the year-end exchange rates. Non-monetary assets have been translated at the historical rate of exchange prevailing at the date of the transaction. Expenses have been translated at the exchange rate at the time of the transaction. Realized and unrealized foreign exchange gains and losses are included in operations.

### **Derivative Instruments**

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging". The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liability at the fair value of the instrument on the reclassification date.







### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk is the risk of loss from adverse changes in market prices and interest rates. We do not have substantial operations at this time so they are not susceptible to these market risks. If, however, they begin to generate substantial revenue, their operations will be materially impacted by interest rates and market prices.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### ***Evaluation of Disclosure Controls and Procedures***

##### Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of September 30, 2015. Based on this evaluation, our principal executive officer and principal financial officers have concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act, including this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that our disclosure and controls are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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

systems, these are only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

#### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with United State's generally accepted accounting principles (US GAAP), including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this assessment, Management concluded the Company did not maintain effective internal control over financial reporting as of September 30, 2015.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An internal control material weakness is a significant deficiency, or aggregation of deficiencies, that does not reduce to a relatively low level the risk that material misstatements in financial statements will be prevented or detected on a timely basis by employees in the normal course of their work. An internal control significant deficiency, or aggregation of deficiencies, is one that could result in a misstatement of the financial statements that is more than consequential.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2015, and this assessment identified the following material weaknesses in the company’s internal control over financial reporting:

- A system of internal controls (including policies and procedures) has neither been designed nor implemented.
- A formal, internal accounting system has not been implemented.
- Segregation of duties in the handling of cash, cash receipts, and cash disbursements is not formalized.

Therefore, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties.

This quarterly report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the

Company to provide only management's report in this Quarterly Report.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation other than those articulated below. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our company, other than those articulated below.

Prior to the Company's investment in CellLynx, on July 19, 2010 certain claims for unpaid wages were filed against CellLynx, Inc. Judgments were obtained commencing in August 2011 for back wages by some of its former employees. Some of those claims have been partially paid and others were expected to be paid in the normal course of business or were to be otherwise defended. Those claims have now been incorporated into California Labor Commission awards in favor of those former employees. Those awards total approximately \$263,000 depending on interest charges. It is the Company's intention to pay these amounts. As of June 30, 2015, the Company accrued \$263,000 in its financial statements.

On May 7, 2015, the Companies registered records office in Nevada received a complaint filed in the Los Angeles Superior Court against 5BARz International, Inc. by IRTTH Communications LLC claiming breach of contract and claiming unpaid fees, interest and expense claims in the amount of \$82,040. *IRTH Communications LLC vs 5BARz International, Inc. SC1124140 ( County of Los Angeles – West Judicial District)*. On August 5, 2015 the Company received a default judgment in the amount of \$84,947 including costs and interest. On August 19, 2015, the Company paid \$5,000 related to the judgment. The balance accrued in the Company's financial statements at September 30, 2015 is \$79,947. On December 30, 2015 the Company settled the amount due by delivery of 500,000 common shares and the agreement that a cash adjustment will be made if the shares do not have a value of \$79,947 six months from the date of issue.

On May 13, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc, and Daniel Bland, by Assured Wireless International Corp. claiming breach of contract and claiming unpaid fees and interest of \$171,159, plus penalties. *Assured Wireless vs. 5BARz International Inc, and Daniel Bland 37-2015-00012766-CU-BC-CTL (County of San Diego)*. The claims also alleges unjust enrichment of \$20,000 as well as \$50,000 for alleged negligent interference with prospective economic

relations. As of September 30, 2015 the Company has accrued \$171,159 for a potential liability, however that amount is in dispute. The Company and Mr. Bland have filed answers generally denying plaintiff's claims and asserting affirmative defenses.

On August 14, 2015 the Company received a complaint filed in the Superior Court of the State of California, County of San Diego on August 4, 2015, against 5BARz International Inc. by, Pluto Technologies, Inc. claiming breach of contract and claiming unpaid fees, charges for equipment repairs and interest of \$70,750. *Pluto Technologies, Inc. vs 5BARz International, Inc. 37-2015-00025796-CU-BC-CTL (County of San Diego)*. It is the Company's intention to vigorously defend the lawsuit. It is too early in the process to determine the likelihood of outcome. In addition, on July 24, 2015 the owner of Pluto Technologies, Inc., Mr. James Fraley, filed a lawsuit in the Superior Court of the State of California, County of San Diego against 5BARz International Inc., claiming breach of contract and claiming unpaid fees, expenses and salaries in the amount of \$148,920. *James Fraley vs. 5BARz International, Inc. 37-2015-00025016-CU-BC-CTL*. As of September 30, 2015 the Company has made a provision of \$212,943 payable to the petitioners. It is the Company's intention to vigorously defend the lawsuits.

On January 8, 2015 a complaint was filed in the Superior Court of the State of California, County of San Diego against 5BARz International Inc, and certain officers of the Company by Warren Cope, a former consulting engineer of the Company claiming breach of contract and fraud claiming unpaid fees and interest of \$121,616, plus 100,000 options exercisable at a price of \$0.10 per share. *Warren Cope vs. 5BARz International Inc, et all 37-2016-00000510-CU-BC-CTL (County of San Diego)*. On February 29, 2016 the parties entered into a settlement agreement which provided for payments of cash in the aggregate amount of \$121,616 by May 15, 2016 and the issuance of the 100,000 options. The settlement agreement provides a stipulation of entry of judgment in the event of a default in payments. The Company has accrued \$121,616 as a liability at September 30, 2015.

On March 10, 2016 a complaint was received, filed in the Eleventh Judicial Circuit Court in Miami-Dade County, Florida, against BARz International, Inc. and certain officers and employees of the Company by Group 10 Holdings, LLC a lender by way of convertible debenture, claiming breach of contract, fraud, negligent misrepresentation and unjust enrichment, claiming \$110,000 plus interest at 12%. *Group 10 Holdings vs 5BARz International, Inc. et all 2016-005597 CA 01*. The Company has reflected a balance at September 30, 2015 due to the lender of \$114,821. The Company and defendants will be filing an answer to the complaint within 20 days of service.

In addition to the above, the Company may become involved in legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

## ITEM 1A. RISK FACTORS

### *Need For Additional Financing*

The Company has very limited funds, and such funds may not be adequate to take advantage of current and planned business opportunities. Even if the Company's funds prove to be sufficient to acquire an interest in, or complete upon transactions contemplated, the Company may not have enough capital to fully develop the opportunity. The ultimate success of the Company may depend upon its ability to raise additional capital. As additional capital is needed, there is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to the Company. If not available, the Company's operations will be limited.

### *Ability to continue as a going concern*

The Company has incurred net losses of \$8,141,431 and \$7,166,395 for the nine months ended September 30, 2015 and 2014. The Company has earned no revenues to date. Consequently the Company's future is dependent upon their ability to obtain financing and to execute upon their business plan and to create future profitable operations for the business. These factors raise substantial doubt that the Company will be able to continue as a going concern. In the event that the Company cannot raise further debt or equity capital, or achieve profitable operations, the Company may have to liquidate their business interests and investors may lose their investment.

### *Lack of profitable operating history*

The Company faces all of the risks of a new business and the special risks inherent in the investigation, acquisition, and involvement in a new business opportunity. The Company must be regarded as a new or "start-up" venture with all of the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject, and consequently has a high risk or failure.

### *We may be subject to significant foreign currency exchange controls in certain countries in which we operate*

Certain foreign economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds

out of certain countries. Any shortages or restrictions may impede our ability to convert these currencies into U.S. dollars and to transfer funds, including for the payment of dividends or interest or principal on our outstanding debt. In the event that any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

***Our foreign operations subject us to risks that could negatively affect our business***

Our business can be exposed to risks inherent in foreign operations. These risks, which can vary substantially by market, include political instability, corruption, social and ethnic unrest, changes in economic conditions (including wage and commodity inflation, consumer spending and unemployment levels), the regulatory environment, tax rates and laws and consumer preferences as well as changes in the laws and policies that govern foreign investment in other countries.

In addition, the value of our foreign assets is affected by fluctuations in foreign currency exchange rates, which may adversely affect reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

***Dependence upon a sole director and limited management and consultants***

The Company currently has only one individuals serving as its officer and director, and few employees and consultants. The Company will be heavily dependent upon their skills, talents, and abilities to implement its business plan, and secure additional personnel and may, from time to time, find that the inability of the officers and directors to fully meet the needs of the business of the Company results in a delay in progress toward implementing its business plan.



***We may conduct further offerings in the future in which case investors' shareholdings may be diluted***

Since our inception, we have relied on sales of our common stock to fund our operations. We may conduct further equity offerings in the future to finance our current operations. If common stock is issued in return for additional funds, the price per share could be lower than that paid by our current stockholders. We anticipate continuing to rely on equity sales of our common stock in order to fund our business operations. If we issue additional stock, investors' percentage interests in us will be diluted. The result of this could reduce the value of current investors' stock.

***Regulation of Penny Stocks***

The Company's securities are subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell such securities to persons other than established customers or accredited investors. For purposes of the rule, the phrase "accredited investors" means, in general terms, institutions with assets in excess of \$5,000,000, or individuals having a net worth in excess of \$1,000,000 or having an annual income that exceeds \$200,000 (or that, when combined with a spouse's income, exceeds \$300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell the Company's securities and also may affect the ability of purchasers in this offering to sell their securities in any market that might develop therefore.

In addition, the Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities Exchange Act of 1934, as amended. Because the securities of the Company may constitute "penny stocks" within the meaning of the rules, the rules would apply to the Company and to its securities. The rules may further affect the ability of owners of Shares to sell the securities of the Company in any market that might develop for them.

Shareholders should be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The Company's management

is aware of the abuses that have occurred historically in the penny stock market. Although the Company does not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to the Company's securities.

***Our common stock is not listed on a national exchange and as a public market develops in the future, it may be limited and highly volatile, which may generally affect any future price of our common stock***

Our common stock currently is listed only in the over-the-counter market on the OTCBB, which is a reporting service and not a securities exchange. We cannot assure investors that in the future our common stock would ever qualify for inclusion on any of the NASDAQ markets for our common stock, The American Stock Exchange or any other national exchange or that more than a limited market will ever develop for our common stock. The lack of an orderly market for our common stock may negatively impact the volume of trading and market price for our common stock.

Any future prices for our common stock will be determined in the marketplace and may be influenced by many factors, including the following:

• the depth and liquidity of the markets for our common stock;

- investor perception of 5BARz International Inc. and the industry in which we participate;

• general economic and market conditions;

• statements or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically, as has occurred in the past;

• quarterly variations in our results of operations;

• general market conditions or market conditions specific to technology industries; and

• domestic and international macroeconomic factors.

In addition, the stock market has recently experienced extreme price and volume fluctuations. These fluctuations are often unrelated to the operating performance of the specific companies. As a result of the factors identified above, a stockholder (due to personal circumstances) may be required to sell his shares of our common stock at a time when our stock price is depressed due to random fluctuations, possibly based on factors beyond our control.

### ***Impracticability of Exhaustive Investigation***

The Company's limited funds and the lack of full-time management will likely make it impracticable to conduct a complete and exhaustive investigation and analysis of its chosen business opportunity before the Company commits its capital or other resources thereto. Management decisions, therefore, will likely be made without detailed feasibility studies, independent analysis, market surveys and the like which, if the Company had more funds available to it, would be desirable.

### ***Other Regulation***

The Company may be subject to regulation or licensing by federal, state, or local authorities. Compliance with such regulations and licensing can be expected to be a time-consuming, expensive process and may limit other investment opportunities of the Company.

***Failure to Perform***

The Company may be unable to comply with the payment terms of certain agreements providing the Company with the exclusive sales marketing and distribution rights to 5BARz product. In the event that the Company defaults on such agreements, the Company may be unable to maintain operations as a going concern.

***Reliance on Third parties***

The Company has entered into certain agreements related to the exclusive sales marketing and distribution rights. In the event that the production Company is unable or unwilling for any reason to supply product under the terms of such agreement, the Company may not be able distribute product or may have business interrupted as they secure alternative production facilities.

***Competitive Technologies***

The Companies technology relates to a market that is highly competitive and a much sought after solution by cellular networks. The Company expects to be at a disadvantage when competing with firms that have substantially greater financial and management resources and capabilities than the Company. The Company is subject to technological obsolescence should other technologies be developed which are superior to the Companies technology.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the nine months ended September 30, 2015 and for the period to March 7, 2016, the Company has issued common stock as follows:

During the period January 1, 2015 to September 30, 2015 the Company issued 29,286,500 units at a price of \$0.05 per unit for aggregate proceeds of \$1,464,325. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of \$0.30 per share acquired, with a two year term on the attached warrant.

On January 13, 2015 the Company issued 331,986 shares at a price of \$0.069 per share for the settlement of convertible notes payable with a total value of \$23,000. The balance of principal and interest due under this convertible note, after this conversion was \$74,829.

On February 2, 2015 the Company issued 75,000 shares at a price of \$0.10 per share for services valued at \$7,500.

On February 2, 2015 the Company issued 180,000 shares at a price of \$0.05 per share in settlement of accrued payables of \$9,000.

On February 9, 2015 the Company issued 400,000 shares at a price of \$0.05 per share in settlement of services valued at \$20,000.

On February 20, 2015 the Company issued 180,000 shares for services at a price of \$0.05 per share for a total value of \$9,000.

On March 20, 2015 the Company issued 400,000 shares at a price of \$0.048 per share upon conversion of \$19,200 of principle and interest due under the terms of a convertible promissory note. The balance of principle and interest due under that note after the conversion was \$167,467.

On March 31, 2015 the Company issued 146,667 shares and warrants to acquire a further 146,667 shares at a price of \$0.30, for a period of two years, pursuant to the terms of a share purchase amending agreement. The agreement relates

to units issued pursuant to a private placement at \$0.15 per unit on November 14, 2014. Aggregate proceeds paid to the Company were \$11,000 and the adjustment changes the issue price to \$0.05 per unit.

On April 15, 2015 the Company issued 300,000 units at a price of \$0.05 per unit for services with a total value of \$15,000. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a strike price of \$0.30 for a term of two years.

On April 27, 2015 the Company issued 450,000 shares at a price of \$0.04 per share upon conversion of \$19,035 of convertible notes. The balance due under the note after conversion was \$148,432. The note was subsequently paid in full.

On April 29, 2015 the Company issued 240,000 units at a price of \$0.05 per unit for services with a total value of \$12,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On May 1, 2015 the Company issued 110,000 shares at a price of \$0.10 per share in settlement of accrued payables of \$11,000.

On May 29, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On June 2, 2015 the Company issued 400,000 units at a price of \$0.05 per unit for services with a total value of \$20,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On June 10, 2015 the Company issued 250,000 shares at a price of \$0.10 per share in settlement of services valued at \$25,000.

On June 24, 2015 the Company issued 1,000,000 shares at a price of \$0.10 per share in settlement of services valued at \$100,000.



On June 30, 2015 the Company issued 312,500 shares at a price of \$0.08 per share for the settlement of convertible notes payable with a total value of \$25,000. The balance of principal and interest due under this convertible note, after this conversion was \$51,322.

On June 30, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On June 30, 2015 the Company issued 144,250 shares at a price of \$0.10 per share in settlement of services valued at \$14,425.

On June 30, 2015 the Company issued 2,000,000 units at a price of \$0.05 per unit for services with a total value of \$100,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On July 1, 2015 the Company issued 60,000 units at a price of \$0.05 per unit for services with a total value of \$3,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On July 10, 2015 the Company issued 1,500,000 shares at a price of \$0.05 per share in settlement of services valued at \$75,000.

On July 31, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On August 7, 2015 the Company issued 24,000 shares at a price of \$0.05 for conversion of interest in the amount of \$1,200, representing the final interest charges on the convertible note.

On August 13, 2015 the Company issued 29,340 shares at a price of \$0.05 for conversion of interest in the amount of \$1,467, representing the final interest charges on the convertible note.



On August 20, 2015 the Company issued 180,000 shares for services at a price of \$0.16 per share for a total value of \$28,800.

On August 24, 2015 the Company issued 1,000,000 shares at a price of \$0.10 per share in settlement of services valued at \$100,000.

On August 26, 2015 the Company issued 4,343,589 shares at a price of \$0.046345 per share in settlement of a note payable services valued at \$100,000.

On August 31, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On September 18, 2015 the Company issued 73,970 shares at a price of \$0.15 per share in settlement of services valued at \$11,096.

On September 22, 2015 the Company issued 1,000,000 shares at a price of \$0.12 per share in settlement of services valued at \$120,000.

On September 28, 2015 the Company issued 210,000 units at a price of \$0.05 per unit for services with a total value of \$10,500. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.

On September 30, 2015 the Company issued 160,000 units at a price of \$0.05 per unit for services with a total value of \$8,000. Each unit is comprised of one common share and one share purchase warrant to acquire a second share at a strike price of \$0.30 with a two year term.



During the period October 1, 2015 to March 7, 2016 the Company issued 29,601,000 units at a price of \$0.05 per unit for aggregate proceeds of \$1,480,050. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of \$0.20 per share acquired, with a two year term on the attached warrant.

On October 12, 2015 the Company issued 1,500,000 shares at a price of \$0.10 per share, for services with a total value of \$150,000.

On October 14, 2015 the Company issued 900,000 shares at a price of \$0.11 per share, for services with a total value of \$ 99,000.

On October 20, 2015 the Company issued 400,000 shares at a price of \$0.10 per share, for services with a total value of \$40,000.

On October 22, 2015 the Company issued 500,000 shares at a price of \$0.10 per share, for services with a total value of \$50,000.

On October 26, 2015 the Company issued 416,666 shares pursuant to a notice of conversion of a convertible note at a price of \$0.048 per share, for the conversion of \$20,000 (see item d(ii) below)

On November 6, 2015 the Company issued 200,000 shares pursuant to a notice of conversion of a convertible note at a price of \$0.041 per share, for the conversion of \$8,200 (see item d(iii) below)

On December 2, 2015 the Company issued 360,000 shares at a price of \$0.08 per share, for services with a total value of \$28,800.

On December 21, 2015 the Company issued 1,500,000 shares at a price of \$0.10 per share, for services with a total value of \$150,000.

Edgar Filing: 5BARz International, Inc. - Form 10-Q

During the period from December 21 to December 24, 2015 the Company issued 8,730,000 shares for the sale of stock at a price of \$0.05 per share in lieu of warrants that have expired. The sales has a total value of \$436,500.

On December 30, 2015 the Company issued 500,000 shares at a price of \$0.15 per share, for services with a total value of \$75,000.

On December 31, 2015 the Company issued 500,000 shares at a price of \$0.05 per share, for services with a total value of \$25,000.

On December 31, 2015 the Company issued 3,000,000 shares at a price of \$0.05 per share in settlement of a convertible note with a total value of \$150,000 (see item d(i) below)

On December 31, 2016 the Company issued 124,000 shares at a price of \$0.05 per share, for services with a total value of \$6,200.

On January 19, 2015 the Company issued 1,578,463 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.0441 per share, for a conversion value of \$69,626 (see item d(iv) below)

On January 20, 2015 the Company issued 200,000 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.06 per share, for a conversion value of \$12,000 (see item d(iii) below).

On February 20, 2016 the Company issued 225,000 shares at a price of \$0.09 per share, for services with a total value of \$20,250.

On February 29, 2016 the Company issued 45,455 shares at a price of \$0.11 per share, for services with a total value of \$5,000.

On March 6, 2016 the Company issued 2,875,000 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.05 per share, for a conversion value of \$143,750 (see item d(v) below)

On March 6, 2016 the Company issued 8,625,000 shares pursuant to a notice of conversion, in settlement of a convertible note at a price of \$0.05 per share, for a conversion value of \$431,250 (see item d(v) below)

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company's 60% owned subsidiary Cellynx Group, Inc. is in default under the terms of convertible notes for non-payment as follows;

Company	Payee	Principal Amount	Accrued penalty and interest	Total amount due
CelLynx Group, Inc.	Asher Enterprises, Inc.	28,400	46,513	\$74,913

### ITEM 4. MINE SAFETY DISCLOSURES

None

### ITEM 5. OTHER INFORMATION

(a) None.

(b) There were no changes to the procedures by which security holders may recommend nominees to our board of directors.



## **ITEM 6. EXHIBITS**

### **EXHIBIT INDEX**

#### **Exhibit**

#### **Number Description**

- |      |  |
|------|--|
| 31.1 | Section 302 Certification by the Corporation's Chief Executive Officer * |
| 31.2 | Section 302 Certification by the Corporation's Chief Financial Officer * |
| 32.1 | Section 906 Certification by the Corporation's Chief Executive Officer * |
| 32.2 | Section 906 Certification by the Corporation's Chief Financial Officer * |

\* Filed herewith .

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

5BARz International Inc.  
(Registrant)

Date: March 14, 2016 By: /s/ Daniel Bland  
Daniel Bland  
Chief Executive Officer

By: /s/ Gil Amelio



Gil Amelio  
Chairman of the Board of Directors