Sanswire Corp.
Form 10-Q/A
October 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

AMENDMENT NO. 1
TO
Form 10-Q
(Mark one)
x QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009
OR
o TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from ____________ to _____________

Commission file number 0-23532

SANSWIRE CORP.
(formerly Globetel Communications Corp.)

(Exact name of small business issuer as specified in its charter)

Delaware	88-0292161
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

101 NE 3rd Ave, Suite 1500,
Fort Lauderdale, Florida 33301
(Address of principal executive offices)

(954) 332-3759
(Issuer's telephone number)

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

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

Indicated by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filter and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

As of September 14, 2009, there were 226,070,599 shares of the issuer's common stock issued and outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

SANSWIRE CORP. (FORMERLY GLOBETEL COMMUNICATIONS CORP.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2009 (Restated) (Unaudited)	DECEMBER 31, 2008 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 103,585	$ 4,809
Current assets from discontinued operations	6,406	6,406
TOTAL CURRENT ASSETS	109,991	11,215
Investment in joint venture	3,229,000	3,229,000
TOTAL NONCURRENT ASSETS	3,229,000	3,229,000
TOTAL ASSETS	$ 3,338,991	$ 3,240,215
LIABILITIES AND STOCKHOLDERS’ DEFICIT		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 3,824,753	$ 3,802,777
Notes and convertible notes payable, net of discount of $126,072 and $134,423	9,477,557	9,264,732
Accrued expenses and other liabilities	3,556,196	3,489,210
Fair value of derivative liabilities	677,825	748,244
Current liabilities from discontinued operations	1,387,407	1,387,406
TOTAL LIABILITIES	18,923,738	18,692,369
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Series A Preferred stock, $.001 par value, 250,000 shares authorized; no shares issued and outstanding:	—	—
Series B Preferred stock, $.001 par value, 500,000 shares authorized; no shares issued and outstanding:	—	—
Series C Preferred stock, $.001 par value, 5,000 shares authorized; no shares issued and outstanding:	—	—
Series D Preferred stock, $.001 par value, 5,000 shares authorized; no shares issued and outstanding:	—	—
Common stock, $.00001 par value, 250,000,000 shares authorized; 189,324,242 and 184,704,015 shares issued and outstanding	1,894	1,848
Additional paid-in capital	110,165,698	109,848,580
Accumulated deficit	(125,752,339)	(125,302,582)
TOTAL STOCKHOLDERS' DEFICIT	(15,584,747)	(15,452,154)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 3,338,991	$ 3,240,215

See accompanying notes to condensed consolidated financial statements

SANSWIRE CORP. (FORMERLY GLOBETEL COMMUNICATIONS CORP.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31,

	2009 (Restated) (Unaudited)	2008 (Restated) (Unaudited)
REVENUES	$ —	$ —
COST OF REVENUES	—	—
GROSS MARGIN	—	—
EXPENSES		
Payroll and related taxes	117,434	372,371
Consulting fees	93,159	130,730
Noncash officers' and directors' compensation	—	285,000
General and administrative	121,491	109,792
TOTAL EXPENSES	332,084	897,893
LOSS FROM OPERATIONS	(332,084)	(897,893)
OTHER INCOME (EXPENSE)		
Loss on extinguishment of debt	—	(1,096,650)
Interest expense, net	(188,091)	(209,536)
Extinguishment of derivative liabilities	—	79,923
Change in fair value of derivative liabilities	70,419	(601,536)
NET OTHER INCOME (EXPENSE)	(117,672)	(1,827,799)
LOSS FROM CONTINUING OPERATIONS	(449,756)	(2,725,692)
LOSS FROM DISCONTINUED OPERATIONS	—	(244)
NET LOSS	$ (449,756)	$ (2,725,936)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
BASIC and DILUTED	185,472,412	136,208,846
LOSS PER SHARE FROM CONTINUING OPERATIONS		
BASIC and DILUTED	$ (0.00)	$ (0.02)
LOSS PER SHARE FROM DISCONTINUED OPERATIONS		
BASIC and DILUTED	$ (0.00)	$ (0.00)
NET LOSS PER SHARE		
BASIC and DILUTED	$ (0.00)	$ (0.02)

See accompanying notes to condensed consolidated financial statements

SANSWIRE CORP. (FORMERLY GLOBETEL COMMUNICATIONS CORP.)
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,

	2009 (Restated) (Unaudited)	2008 (Restated) (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (449,756)	$ (2,725,936)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization of debt discount	34,009	66,647
Loss on extinguishment of debt	—	1,096,650
Stock based compensation	84,500	115,000
Fair value of vested options	—	244,831
Interest expense on convertible notes payable	142,313	142,767
Extinguishment of derivative liabilities	—	(79,923)
Change in fair value of derivative liabilities	(70,419)	601,536
Decrease in assets:		
Decrease in assets relating to discontinued operations	—	11,956
Increase in liabilities:		
Accounts payable	21,976	47,189
Accrued expenses and other liabilities	96,153	253,165
Increase in liabilities relating to discontinued operations	—	25
NET CASH USED BY OPERATING ACTIVITIES	(141,224)	(226,093)
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CASH USED BY INVESTING ACTIVITIES	—	—
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	—	(25,139)
Proceeds from notes and loans payable	140,000	356,278
Proceeds from sale of common stock	100,000	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	240,000	331,139
NET INCREASE IN CASH AND EQUIVALENTS	98,776	105,046
CASH AND EQUIVALENTS – BEGINNING OF PERIOD	4,809	32,278
CASH AND EQUIVALENTS – ENDING OF PERIOD	$ 103,585	$ 137,324
SUPPLEMENTAL DISCLOSURES		
Cash paid during the period for:		
Interest	$ 122	$ 122
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued for joint venture	—	268,000
Shares for accrued expenses	29,167	61,470
Conversion of notes payable to common stock	75,438	281,320
Non-cash equity-warrant valuation and intrinsic value of beneficial conversion associated with convertible notes	84,601	129,918

See accompanying notes to condensed consolidated financial statements

SANSWIRE CORP. (FORMERLY GLOBETEL COMMUNICATIONS CORP.)
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
PERIODS ENDED MARCH 31, 2009 AND 2008
(RESTATED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

NATURE OF OPERATIONS

From 2002 to 2007 Sanswire Corp. (formerly known as GlobeTel Communications Corp.) ("Sanswire") (the “Company”) was involved in the following business sectors: stored value card services; wholesale telecommunications services; voice over IP; wireless broadband; and high altitude airships. These business units operated through various subsidiaries. The Company has discontinued operations in all but the high altitude airship sector.

On September 22, 2008 the Company filed a Certificate of Merger with the Secretary of State of the State of Delaware pursuant to which the wholly owned subsidiary, Sanswire Corp., a Delaware corporation, was merged into the Company. As a result of the filing of the Certificate of Merger, the corporate name was changed from GlobeTel Communications Corp. to Sanswire Corp. The opportunities associated with Sanswire are related to the Lighter Than Air (LTA) Unmanned Aerial Vehicle (UAV) market. Sanswire seeks to build and run a UAV business that includes low-, mid- and high-altitude, lighter-than-air vehicles. Sanswire intends to provide customers seamless wireless broadband capabilities and surveillance sensor suites utilizing its High Altitude Airship technology.

Sanswire’s main products are airships, which provide a platform to transmit wireless capabilities from air to ground.

The High Altitude class of prospective airships are generally referred to as HAAs (High Altitude Airships) but have also been called HAPs and HALEs (High Altitude Platforms, High Altitude Long Endurance). They have been designed to be able to keep a station in one location in the Stratosphere, at approximately 65,000 ft for durations of 30 days or more.

ORGANIZATION AND CAPITALIZATION

The Company was organized in July 2002, under the laws of the State of Delaware.

BASIS OF PRESENTATION

The condensed consolidated financial statements of the Company include the accounts of its subsidiaries. These unaudited condensed consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments considered necessary for a fair statement of the Company’s financial position as of March 31, 2009 and the results of operations for the three months ended March 31, 2009 and 2008, and cash flows for the three month periods ended March 31, 2009 and 2008, consisting only of normal and recurring adjustments. All significant intercompany transactions have been eliminated in consolidation. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009. The interim condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the Company’s consolidated financial statements and footnotes thereto for the year ended

December 31, 2008 filed on Form 10-K/A filed on September 22, 2009.

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GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, the Company had a net loss of $449,756 and a negative cash flow from operations of $141,224 for the three months ended March 31, 2009, and had a working capital deficiency of $18,813,747 and a stockholders' deficit of $15,584,747 at March 31, 2009. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company anticipates that a net loss will continue for fiscal 2009.

Additional cash will still be needed to support operations. Management believes it can continue to raise capital from various funding sources, which when added to budgeted sales and current working capital, will be sufficient to sustain operations at its current level through December 31, 2009. However, if budgeted sales levels are not achieved and/or if significant unanticipated expenditures occur, or if it is unable to obtain the necessary funding, the Company may have to modify its business plan, reduce or discontinue some of its operations or seek a buyer for all or part of its assets to continue as a going concern. As of the date of this report the Company has continued to raise capital to sustain its current operations which have been reduced since January 1, 2008. The Company will need to periodically seek investment to provide cash for operations until such time that operations provide sufficient cash flow to cover expenditures. (see also next paragraph)

On May 2, 2008, the Securities and Exchange Commission ("SEC") filed a lawsuit in the United States District Court for the Southern District of Florida against GlobeTel Communications Corp. (the "Company") and three former officers of the Company, Timothy J. Huff, Thomas Y. Jimenez and Lawrence E. Lynch. The SEC alleges, among other things, that the Company recorded $119 million in revenue on the basis of fraudulent invoices created by Joseph Monterosso and Luis Vargas, two individuals formerly employed by the Company who were in charge of its wholesale telecommunications business. The SEC alleges that the Company violated Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933, as amended, Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 under the Exchange Act. The SEC seeks as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The Company intends to vigorously defend itself in this action. The Staff is also considering recommending that the SEC authorize and institute proceedings to revoke the registration of Company's securities pursuant to Section 12(j) of the Exchange Act. (also see Note 6)

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

REGISTRATION RIGHTS

In connection with the sale of debt or equity instruments, the Company may enter into Registration Rights Agreements. Generally, these Agreements require the Company to file registration statements with the Securities and Exchange Commission to register common shares that may be issued on conversion of debt or preferred stock, to permit re-sale of common shares previously sold under an exemption from registration or to register common shares that may be issued on exercise of outstanding options or warrants.

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These Agreements usually require the Company to pay penalties for any time delay in filing the required registration statements, or in the registration statements becoming effective, beyond dates specified in the Agreement. These penalties are usually expressed as a fixed percentage, per month, of the original amount the Company received on issuance of the debt or preferred stock, common shares, options or warrants. The Company account for these penalties when it is probable that a penalty will be incurred. At March 31, 2009 the Company has no registration rights agreement requiring penalties to be recorded.

INCOME TAXES

Income taxes are computed under the provisions of the Financial Accounting Standards Board (FASB) Statement No. 109 (SFAS 109), Accounting for Income Taxes. SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of the difference in events that have been recognized in the Company's financial statements compared to the tax returns.

VALUATION HIERARCHY

FAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2009:

		Fair Value Measurements at March 31, 2009		
	Total Carrying Value at March 31, 2009	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	$ 108,671	$ 108,671	$ —	$ —
Derivative liabilities	677,825	—	—	677,825

The derivative liabilities are measured at fair value using quoted market prices and estimated volatility factors, and are classified within Level 3 of the valuation hierarchy. There were no changes in the valuation techniques during the three months ended March 31, 2009.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments, including cash, accounts payable, accrued expenses and notes payable are carried at amounts which reasonably approximate their fair value due to the short-term nature of these amounts or due to variable rates of interest which are consistent with market rates.

USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles in the United States requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share has been computed based upon the weighted average number of shares of common stock outstanding during each period. The basic and diluted net loss is computed by dividing the net loss by the weighted average number of common shares outstanding during each period. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. If all outstanding options, warrants and convertible shares were to be converted or exercised as of March 31, 2009, the shares outstanding would be 246,440,958.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company follows FASB Statement No. 144 (SFAS 144), "Accounting for the Impairment of Long-Lived Assets." SFAS 144 requires that long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the condensed consolidated statements of operations. For stock-based derivative financial instruments, the Company uses the Black-Scholes option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

STOCK-BASED COMPENSATION

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees using SFAS No. 123R effective January 1, 2006, and for all share-based payments granted based on the requirements of SFAS No. 123R. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with EITF No. 96-18: "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF 00-18 "Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees" whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 159, The Fair Value Option of Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159. The Fair Value Option of Financial Assets and Financial Liabilities ("SFAS No. 159"). SFAS No. 159 provides an option to report selected financial assets and financial liabilities using fair value. The standard establishes required presentation and disclosures to facilitate comparisons with companies that use different measurements for similar assets and liabilities. The Company has adopted this standard effective January 1, 2009 and the Company's adoption of this standard did not have a material impact on its condensed consolidated financial statements.

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SFAS No. 141 (R), Business Combinations and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements. SFAS No. 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statement. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141R and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has adopted this standard effective January 1, 2009 and the Company’s adoption of this standard did not have a material impact on its condensed consolidated financial statements.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued FASB Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities”. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company has adopted this standard effective January 1, 2009 and the Company’s adoption of this standard did not have a material impact on its condensed consolidated financial statements.

FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments . This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. The most significant change the FSP brings is a revision to the amount of other-than-temporary loss of a debt security recorded in earnings. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not believe that the implementation of this standard will have a material impact on its condensed consolidated financial statements.

FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly . This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements , when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. The Company does not believe that the implementation of this standard will have a material impact on its condensed consolidated financial statements.

FAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued FSP FAS FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments , to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting , to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not believe that the implementation of this standard will have a material impact on its condensed consolidated financial statements.

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NOTE 2. RESTATEMENT OF FINANCIAL STATEMENTS

On September 4, 2009, the Company concluded, with the concurrence of the Company's Board of Directors, that an accounting error had been made in the Company's historical March 31, 2009 and March 31, 2008 financial statements in relation to the recording of derivative liabilities related to the conversion feature and associated warrants issued with convertible notes during 2006, 2007, and 2008. As a result, the Company's consolidated financial statements for the three months ended March 31, 2009 and 2008 are being amended and restated.

The restatements reflect adjustments to recognize derivative liabilities and related changes in the fair value of the derivative liabilities. The convertible notes and associated warrants provide for a strike price reset if the Company issues stock at a price less than the defined exercise price, and the Company determined derivative liability classification was required for the conversion feature and associated warrants under EITF 00-19. In particular, the Company compared (a) the number of authorized but unissued shares, less the maximum number of shares that could be required to be delivered during the contract period under existing commitments (i.e. other convertible notes, warrants, and options) with (b) the maximum number of shares that could be required to be delivered upon conversion of the convertible notes. Since the amount in (b) exceeded the amount in (a), the Company determined that share settlement was not within its control.

The effects of the restatement on the Company's condensed consolidated financial statements for the periods ended March 31, 2009 and 2008 are shown below (note: see table of adjustment descriptions at end of this section):

	March 31, 2009			
Account	(As Initially Reported)	(Adjustment)		(As Restated) (Unaudited)
Current Assets				
Cash	$ 103,585	$ —		$ 103,585
Current assets from discontinued operations	6,406	—		6,406
Total current assets	109,991	—		109,991
Investment in joint venture	3,229,000	—		3,229,000
Total Assets	$ 3,338,991	$ —		$ 3,338,991
Liabilities and Stockholders' Deficit				
Current liabilities				
Accounts payable	$ 3,824,753	$ —		$ 3,824,753
Notes and notes payable, net of discount of $303,056 and $126,072	9,300,573	176,984	2	9,477,557
Accrued expenses and other liabilities	3,556,196	—		3,556,196
Derivative liabilities	677,825			677,825
Current liabilities from discontinued operations	1,387,407	—		1,387,407
Total current liabilities	18,746,754	176,984		18,923,738
Stockholders' Deficit				
Common stock	1,894	—		1,894
Additional paid-in capital	111,294,864	(1,129,166)	1	110,165,698
Accumulated deficit	(126,704,521)	952,182	1, 2	(125,752,339)
Total Stockholders' Deficit	(15,407,763			